

Aug. 12, 2016

### OPG REPORTS 2016 SECOND QUARTER FINANCIAL RESULTS

#### *Quarterly Earnings were \$132 million as Preparations Continue for Canada's Largest Clean Energy Project*

[Toronto]: — Ontario Power Generation Inc. (OPG or Company) today reported quarterly income of \$132 million for the second quarter that ended June 30, 2016 as it continues to prepare for the start of the refurbishment on the first unit of the Darlington Nuclear Generating Station (GS) later in the year.

"The Company's strong operating performance is evidenced by another excellent safety and performance rating for the Darlington station from the World Association of Nuclear Operators in June 2016, which maintained the station's standing among the top performing nuclear power plants in the world. The strong operating performance provides a firm financial base for refurbishing the Darlington Nuclear Generating Station," said Jeff Lyash, President and CEO. "Extensive plans and preparations have kept us on track to start refurbishment work on the first of the four units in the fourth quarter of this year."

Mr. Lyash added, "OPG has successfully delivered climate change initiatives and is now ready to deliver Canada's largest clean power project. The \$12.8-billion investment in refurbishing Darlington's four units will create thousands of jobs, generate \$14.9 billion in economic benefits to Ontario and will provide safe, clean, reliable, cost-effective electricity for at least another 30 years."

Net income attributable to the Shareholder for the second quarter of 2016 was \$132 million compared to \$189 million for the same quarter in 2015. Net income attributable to the Shareholder for the six months ended June 30, 2016 was \$255 million compared to \$423 million for the same period in 2015. The decrease in net income for these periods was primarily due to lower nuclear generation and higher nuclear outage OM&A expenses stemming from the timing of planned outage activities at the Darlington GS during the year. Compared to 2016, much of the planned outage work at the station in 2015 was scheduled later in the year to coincide with the execution of the four-unit vacuum building outage, a critical step in support of the station's refurbishment.

#### **Generating and Operating Performance**

Electricity generated during the three months ended June 30, 2016 was 19.4 terawatt hours (TWh) compared to 20.8 TWh for the same quarter in 2015. Total electricity generated during the six months ended June 30, 2016 was 40.4 TWh, compared to 42.1 TWh for the same period in 2015. The decrease was mainly due to

a decrease in nuclear generation of 1.7 TWh for the three months ended and 1.6 TWh for the six months ended June 30, 2016. The lower nuclear generation was largely a result of the timing of planned outage activities at the Darlington GS during the year compared to 2015, and an increase in planned outage activities at the Pickering GS. Increases in electricity generated from the regulated hydroelectric generating stations during the three and six month periods ended June 30, 2016 partially offset the lower nuclear generation by 0.4 TWh and 0.1 TWh, respectively.

For the three months ended June 30, 2016, the unit capability factor at the Darlington GS was 75.9 per cent compared to 91.5 per cent for the same quarter in 2015. For the six months ended June 30, 2016, the unit capability factor at the Darlington GS was 86.6 per cent compared to 94.7 per cent for the same period in 2015. At the Pickering GS, the unit capability factor was 71.4 compared to 80.0 per cent for the same quarter in 2015. For the six months ended June 30, 2016, the unit capability factor at the Pickering GS was 72.1 per cent compared to 76.5 per cent for the same period in 2015. The lower unit capability factor at the Darlington GS reflected the timing of planned outage activities at the station during the year compared to 2015. The decrease in the unit capability factor at the Pickering GS was mainly due to an increase in the number of planned outage days during the three and six month periods ended June 30, 2016.

The availability of OPG's regulated hydroelectric generating stations for the three and six month periods ended June 30, 2016 remained above 90 per cent. For the contracted hydroelectric plants, availability decreased from 95.3 per cent in the second quarter of 2015 to 87.0 per cent in the second quarter of 2016, and from 96.5 per cent for the first half of 2015 to 85.5 per cent for the same period in 2016. The lower hydroelectric availability at the contracted plants was primarily due to an increase in planned outage days.

The thermal Equivalent Forced Outage Rate improved during the three and six month periods ended June 30, 2016 compared to the same periods ended June 30, 2015, primarily due to the outage taken in 2015 to perform repair work at the Lennox GS.

### **Generation Development**

OPG is undertaking a number of generation development and life extension projects. Significant developments during the second quarter of 2016 were as follows:

#### *Darlington Refurbishment*

The project to refurbish the four units at the Darlington station is in the execution phase. The approved project budget for the four-unit refurbishment is \$12.8 billion, including capitalized interest and escalation. Preparation activities and pre-requisite project work continued during the quarter. The refurbishment of the first unit, Unit 2, is on track to commence in the fourth quarter of 2016, with the last unit scheduled to be completed by 2026. Unit 2 is scheduled to be returned to service in the first quarter of 2020, at which time, capital expenditures of approximately \$4.8 billion are planned to be placed in service. The planned in-service amount includes expenditures incurred during the definition and planning phase of the project.

Life-to-date capital expenditures on the project were \$2,612 million as at June 30, 2016.

*Peter Sutherland Sr. GS*

Construction work on the new 28 MW hydroelectric generating station on the New Post Creek continued as scheduled during the second quarter of 2016. The project has a planned in-service date in the first half of 2018 and an approved budget of \$300 million. Life-to-date capital expenditures were \$162 million as at June 30, 2016.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

|                                                                                                                                                                                | Three Months Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------|-----------------------------|-------|
| (millions of dollars – except where noted)                                                                                                                                     | 2016                          | 2015  | 2016                        | 2015  |
| Revenue                                                                                                                                                                        | 1,387                         | 1,383 | 2,865                       | 2,738 |
| Fuel expense                                                                                                                                                                   | 182                           | 180   | 354                         | 337   |
| Gross margin                                                                                                                                                                   | 1,205                         | 1,203 | 2,511                       | 2,401 |
| Operations, maintenance and administration                                                                                                                                     | 709                           | 650   | 1,395                       | 1,315 |
| Depreciation and amortization                                                                                                                                                  | 316                           | 200   | 628                         | 396   |
| Accretion on fixed asset removal and nuclear waste management liabilities                                                                                                      | 232                           | 224   | 464                         | 448   |
| Earnings on nuclear funds - (a reduction to expenses)                                                                                                                          | (225)                         | (141) | (372)                       | (372) |
| Income from investments subject to significant influence                                                                                                                       | (9)                           | (11)  | (17)                        | (22)  |
| Other net expenses (gains)                                                                                                                                                     | 10                            | 13    | (1)                         | 26    |
| Income before interest and income taxes                                                                                                                                        | 172                           | 268   | 414                         | 610   |
| Net interest expense                                                                                                                                                           | 31                            | 47    | 64                          | 94    |
| Income tax expense                                                                                                                                                             | 6                             | 28    | 87                          | 84    |
| Net income                                                                                                                                                                     | 135                           | 193   | 263                         | 432   |
| Net income attributable to the Shareholder                                                                                                                                     | 132                           | 189   | 255                         | 423   |
| Net income attributable to non-controlling interest <sup>1</sup>                                                                                                               | 3                             | 4     | 8                           | 9     |
| <b>Income (loss) before interest and income taxes</b>                                                                                                                          |                               |       |                             |       |
| Electricity generation business segments                                                                                                                                       | 178                           | 358   | 498                         | 695   |
| Regulated – Nuclear Waste Management                                                                                                                                           | (5)                           | (81)  | (88)                        | (72)  |
| Services, Trading, and Other Non-Generation                                                                                                                                    | (1)                           | (9)   | 4                           | (13)  |
| Total income before interest and income taxes                                                                                                                                  | 172                           | 268   | 414                         | 610   |
| <b>Cash flow</b>                                                                                                                                                               |                               |       |                             |       |
| Cash flow provided by operating activities                                                                                                                                     | 348                           | 450   | 714                         | 905   |
| <b>Electricity generation (TWh)</b>                                                                                                                                            |                               |       |                             |       |
| Regulated – Nuclear Generation                                                                                                                                                 | 10.6                          | 12.3  | 22.9                        | 24.5  |
| Regulated – Hydroelectric                                                                                                                                                      | 8.0                           | 7.6   | 15.9                        | 15.8  |
| Contracted Generation Portfolio <sup>2</sup>                                                                                                                                   | 0.8                           | 0.9   | 1.6                         | 1.8   |
| Total electricity generation                                                                                                                                                   | 19.4                          | 20.8  | 40.4                        | 42.1  |
| <b>Nuclear unit capability factor (per cent)</b>                                                                                                                               |                               |       |                             |       |
| Darlington GS                                                                                                                                                                  | 75.9                          | 91.5  | 86.6                        | 94.7  |
| Pickering GS                                                                                                                                                                   | 71.4                          | 80.0  | 72.1                        | 76.5  |
| <b>Availability (per cent)</b>                                                                                                                                                 |                               |       |                             |       |
| Regulated – Hydroelectric                                                                                                                                                      | 90.4                          | 92.1  | 92.6                        | 91.8  |
| Contracted Generation Portfolio – Hydroelectric                                                                                                                                | 87.0                          | 95.3  | 85.5                        | 96.5  |
| <b>Equivalent forced outage rate</b>                                                                                                                                           |                               |       |                             |       |
| Contracted Generation Portfolio – Thermal                                                                                                                                      | 1.0                           | 10.3  | 1.0                         | 17.5  |
| <b>Return on Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI) for the twelve months ended June 30, 2016 and December 31, 2015 (%) <sup>3</sup></b> |                               |       | 2.3                         | 4.0   |
| <b>Funds from operations (FFO) Adjusted Interest Coverage for the twelve months ended June 30, 2016 and December 31, 2015 (times) <sup>3</sup></b>                             |                               |       | 4.8                         | 5.0   |

<sup>1</sup> Relates to the 25 per cent interest of a corporation wholly owned by the Moose Cree First Nation in the Lower Mattagami Limited Partnership.

<sup>2</sup> Includes OPG's share of generation volume from its 50 per cent ownership interests in the Portlands Energy Centre and Brighton Beach GS.

<sup>3</sup> ROE Excluding AOCI and FFO Adjusted Interest Coverage are non-GAAP financial measures and do not have any standardized meaning prescribed by US GAAP. Additional information about these measures is provided in OPG's Management's Discussion and Analysis for the three and six month periods ended June 30, 2016, under the sections *Highlights – ROE Excluding AOCI* and *Highlights – FFO Adjusted Interest Coverage*, as well as *Supplementary Non-GAAP Financial Measures*.

Ontario Power Generation Inc.'s unaudited interim consolidated financial statements and Management's Discussion and Analysis as at and for the three and six month periods ended June 30, 2016 can be accessed on OPG's web site ([www.opg.com](http://www.opg.com)), the Canadian Securities Administrators' web site ([www.sedar.com](http://www.sedar.com)), or can be requested from the Company.

**Media Relations** 416-592-4008  
1-877-592-4008

**ONTARIO POWER GENERATION INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**2016 SECOND QUARTER REPORT**

**TABLE OF CONTENTS**

|                                                                    |    |
|--------------------------------------------------------------------|----|
| Forward-Looking Statements                                         | 2  |
| The Company                                                        | 3  |
| Highlights                                                         | 4  |
| Core Business, Strategy and Outlook                                | 9  |
| Discussion of Operating Results by Business Segment                | 13 |
| Regulated – Nuclear Generation Segment                             | 13 |
| Regulated – Nuclear Waste Management Segment                       | 14 |
| Regulated – Hydroelectric Segment                                  | 15 |
| Contracted Generation Portfolio Segment                            | 16 |
| Services, Trading, and Other Non-Generation Segment                | 17 |
| Liquidity and Capital Resources                                    | 17 |
| Balance Sheet Highlights                                           | 20 |
| Changes in Accounting Policies and Estimates                       | 21 |
| Risk Management                                                    | 21 |
| Related Party Transactions                                         | 24 |
| Internal Controls over Financial Reporting and Disclosure Controls | 26 |
| Quarterly Financial Highlights                                     | 26 |
| Supplementary Non-GAAP Financial Measures                          | 28 |

**ONTARIOPOWER**  
GENERATION

# ONTARIO POWER GENERATION INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. (OPG or Company) as at and for the three and six months ended June 30, 2016. OPG's unaudited interim consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (US GAAP) and are presented in Canadian dollars.

For a complete description of OPG's corporate strategies, risk management, corporate governance, and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and the MD&A as at and for the year ended December 31, 2015.

As required by *Ontario Regulation 395/11*, as amended, a regulation under the *Financial Administration Act* (Ontario), OPG adopted US GAAP for the presentation of its consolidated financial statements, effective January 1, 2012. In 2014, the Ontario Securities Commission approved an exemption which allows OPG to apply US GAAP up to January 1, 2019. The term of the exemption is subject to certain conditions, which may result in the expiry of the exemption prior to January 1, 2019. For details, refer to the heading, *Exemptive Relief for Reporting under US GAAP*, in the section, *Critical Accounting Policies and Estimates*, in OPG's 2015 annual MD&A. This MD&A is dated August 12, 2016.

### FORWARD-LOOKING STATEMENTS

The MD&A contains forward-looking statements that reflect OPG's current views regarding certain future events and circumstances. Any statement contained in this document that is not current or historical is a forward-looking statement. OPG generally uses words such as "anticipate", "believe", "foresee", "forecast", "estimate", "expect", "schedule", "intend", "plan", "project", "seek", "target", "goal", "strategy", "may", "will", "should", "could" and other similar words and expressions to indicate forward-looking statements. The absence of any such word or expression does not indicate that a statement is not forward-looking.

All forward-looking statements involve inherent assumptions, risks and uncertainties, including those set out under the section, *Risk Management*, and forecasts discussed under the section, *Core Business, Strategy and Outlook*. All forward-looking statements could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs, generating station performance and availability, cost of fixed asset removal and nuclear waste management, performance of investment funds, conversion of generating stations to alternative fuels, refurbishment of existing facilities, development and construction of new facilities, pension and other post-employment benefit (OPEB) obligations and funds, income taxes, proposed new legislation, the ongoing evolution of Ontario's electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, applications to the Ontario Energy Board (OEB) for regulated prices, the impact of regulatory decisions by the OEB, and forecasts of earnings, cash flows, Funds from Operations (FFO) Adjusted Interest Coverage, Return on Common Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI), and capital expenditures. Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. Except as required by applicable securities laws, OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise.

## THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (Province or Shareholder).

As at June 30, 2016, OPG's electricity generation portfolio had an in-service capacity of 17,048 megawatts (MW). OPG operates two nuclear generating stations, 65 hydroelectric generating stations, three thermal generating stations, and one wind power turbine. In addition, OPG and TransCanada Energy Ltd. co-own the 550 MW Portlands Energy Centre (PEC) gas-fired combined cycle generating station (GS). OPG and ATCO Power Canada Ltd. co-own the 560 MW Brighton Beach gas-fired combined cycle GS (Brighton Beach). OPG's 50 percent share of the in-service capacity and generation volume of these co-owned facilities is included in the generation portfolio statistics set out in this report. The income from the co-owned facilities is accounted for using the equity method of accounting, and OPG's share of income is presented as income from investments subject to significant influence in the Contracted Generation Portfolio segment.

OPG also owns two other nuclear generating stations, the Bruce A GS and the Bruce B GS, which are leased on a long-term basis to Bruce Power LP (Bruce Power). Income from these leased stations is included in revenue under the Regulated – Nuclear Generation segment. The leased stations are not included in the generation portfolio statistics set out in this report. A description of OPG's segments is provided in OPG's 2015 annual MD&A in the section, *Business Segments*.

OPG does not operate PEC, Brighton Beach, the Bruce A GS and the Bruce B GS.

The in-service generating capacity by business segment as at June 30, 2016 and December 31, 2015 was as follows:

|                                              | June 30<br>2016 | As at<br>December 31<br>2015 |
|----------------------------------------------|-----------------|------------------------------|
| (MW)                                         |                 |                              |
| Regulated – Nuclear Generation               | 6,606           | 6,606                        |
| Regulated – Hydroelectric                    | 6,421           | 6,428                        |
| Contracted Generation Portfolio <sup>1</sup> | 4,021           | 4,021                        |
| Total                                        | 17,048          | 17,055                       |

<sup>1</sup> Includes OPG's share of in-service generating capacity of 275 MW for PEC and 280 MW for Brighton Beach.

During the six months ended June 30, 2016, the in-service capacity of the Regulated – Hydroelectric segment decreased by 7 MW. The decrease was primarily a result of an adjustment to the capacity of the units at the Abitibi Canyon GS and the Sir Adam Beck 1 GS to reflect unit limit capability.

## HIGHLIGHTS

### Overview of Results

This section provides an overview of OPG's unaudited interim consolidated operating results. Significant factors which contributed to OPG's results during the three and six month periods ended June 30, 2016, compared to the same periods in 2015, are discussed below.

| <i>(millions of dollars – except where noted) (unaudited)</i>              | Three Months Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|----------------------------------------------------------------------------|-------------------------------|-------|-----------------------------|-------|
|                                                                            | 2016                          | 2015  | 2016                        | 2015  |
| Revenue                                                                    | 1,387                         | 1,383 | 2,865                       | 2,738 |
| Fuel expense                                                               | 182                           | 180   | 354                         | 337   |
| Gross margin                                                               | 1,205                         | 1,203 | 2,511                       | 2,401 |
| Operations, maintenance and administration                                 | 709                           | 650   | 1,395                       | 1,315 |
| Depreciation and amortization                                              | 316                           | 200   | 628                         | 396   |
| Accretion on fixed asset removal and nuclear waste management liabilities  | 232                           | 224   | 464                         | 448   |
| Earnings on nuclear fixed asset removal and nuclear waste management funds | (225)                         | (141) | (372)                       | (372) |
| Income from investments subject to significant influence                   | (9)                           | (11)  | (17)                        | (22)  |
| Property taxes                                                             | 11                            | 12    | 23                          | 25    |
| Restructuring                                                              | -                             | 1     | -                           | 1     |
|                                                                            | 1,034                         | 935   | 2,121                       | 1,791 |
| Income before other gains, interest and income taxes                       | 171                           | 268   | 390                         | 610   |
| Other gains                                                                | (1)                           | -     | (24)                        | -     |
| Income before interest and income taxes                                    | 172                           | 268   | 414                         | 610   |
| Net interest expense                                                       | 31                            | 47    | 64                          | 94    |
| Income before income taxes                                                 | 141                           | 221   | 350                         | 516   |
| Income tax expense                                                         | 6                             | 28    | 87                          | 84    |
| Net income                                                                 | 135                           | 193   | 263                         | 432   |
| Net income attributable to the Shareholder                                 | 132                           | 189   | 255                         | 423   |
| Net income attributable to non-controlling interest <sup>1</sup>           | 3                             | 4     | 8                           | 9     |
| Electricity production (TWh) <sup>2</sup>                                  | 19.4                          | 20.8  | 40.4                        | 42.1  |
| Cash flow provided by operating activities                                 | 348                           | 450   | 714                         | 905   |

<sup>1</sup> Relates to the 25 percent interest of the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation, in the Lower Mattagami Limited Partnership.

<sup>2</sup> Includes OPG's share of generation volume from its 50 percent ownership interests in PEC and Brighton Beach.

### Second Quarter

Net income attributable to the Shareholder was \$132 million for the second quarter of 2016, a decrease of \$57 million compared to the same quarter in 2015.

Income before interest and income taxes for the quarter decreased by \$96 million.

Significant factor that reduced income before interest and income taxes:

- The timing of planned outages at the Darlington GS during the year and an increase in planned outage activities at the Pickering GS, which were the primary drivers for the reduced nuclear generation of 1.7 terawatt hours (TWh) and higher operations, maintenance and administration (OM&A) expenses of \$68 million for the Regulated – Nuclear Generation segment. The lower nuclear generation reduced the

nuclear gross margin by \$97 million. Although the change in the nuclear gross margin also reflected an increase in revenue due to higher OEB-authorized rate riders in effect during the second quarter of 2016, the resulting income impact was largely offset by higher amortization expense related to the regulatory balances.

*Significant factor that increased income before interest and income taxes:*

- Higher earnings on the nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds) of \$84 million, primarily due to higher earnings on the Decommissioning Segregated Fund (Decommissioning Fund).

Net interest expense decreased by \$16 million during the second quarter of 2016, compared to the same quarter in 2015, primarily due to a higher amount of interest costs capitalized for the Darlington Refurbishment project expenditures and a higher amount of interest costs deferred in OEB-approved regulatory variance accounts.

Income tax expense for the three months ended June 30, 2016 was \$6 million, compared to \$28 million for the same period in 2015. The decrease in income tax expense was primarily due to lower income before taxes and a higher amount of deferred tax expense recorded as recoverable from customers, partly offset by a lower change in reserves from the resolution of uncertainties.

#### Year-To-Date

Net income attributable to the Shareholder was \$255 million for the first six months of 2016, a decrease of \$168 million compared to the same period in 2015.

Income before interest and income taxes for the period decreased by \$196 million.

*Significant factor that reduced income before interest and income taxes:*

- The timing of planned outages at the Darlington GS during the year and an increase in planned outage activities at the Pickering GS, which were the primary driver for the reduced nuclear generation of 1.6 TWh and higher OM&A expenses of \$105 million for the Regulated – Nuclear Generation segment. The lower nuclear generation reduced the nuclear gross margin by \$94 million. Although the change in the nuclear gross margin also reflected an increase in revenue due to higher OEB-authorized rate riders in effect during the first half of 2016, the resulting income impact was largely offset by higher amortization expense related to the regulatory balances.

*Significant factor that increased income before interest and income taxes:*

- A gain of \$22 million recorded during the first quarter of 2016 reflecting the OEB's January 2016 decision to reverse a portion of an earlier capital cost disallowance related to Niagara Tunnel project expenditures, in response to OPG's motion requesting the OEB to review and vary parts of its November 2014 decision that resulted in that disallowance.

Net interest expense decreased by \$30 million for the six months ended June 30, 2016, compared to the same period in 2015, primarily due to a higher amount of interest costs capitalized for the Darlington Refurbishment project expenditures and a higher amount of interest costs deferred in OEB-approved regulatory variance accounts.

Income tax expense for the six months ended June 30, 2016 was \$87 million, compared to \$84 million for the same period in 2015. The increase in income tax expense was primarily due to a lower change in reserves from the resolution of uncertainties, largely offset by a reduction in income before taxes.

## Segment Results

The following table summarizes OPG's income before interest and income taxes by business segment. A detailed discussion of OPG's performance by reportable segment is included in the section, *Discussion of Operating Results by Business Segment*.

|                                                | Three Months Ended<br>June 30 |      | Six Months Ended<br>June 30 |      |
|------------------------------------------------|-------------------------------|------|-----------------------------|------|
| (millions of dollars)                          | 2016                          | 2015 | 2016                        | 2015 |
| (Loss) income before interest and income taxes |                               |      |                             |      |
| Regulated – Nuclear Generation                 | (76)                          | 99   | (30)                        | 187  |
| Regulated – Hydroelectric                      | 187                           | 181  | 383                         | 368  |
| Contracted Generation Portfolio                | 67                            | 78   | 145                         | 140  |
| Total electricity generation business segments | 178                           | 358  | 498                         | 695  |
| Regulated – Nuclear Waste Management           | (5)                           | (81) | (88)                        | (72) |
| Services, Trading, and Other Non-Generation    | (1)                           | (9)  | 4                           | (13) |
|                                                | 172                           | 268  | 414                         | 610  |

## Electricity Generation

Electricity generation for the three and six month periods ended June 30, 2016 and 2015 was as follows:

|                                                                              | Three Months Ended<br>June 30 |      | Six Months Ended<br>June 30 |      |
|------------------------------------------------------------------------------|-------------------------------|------|-----------------------------|------|
| (TWh)                                                                        | 2016                          | 2015 | 2016                        | 2015 |
| Regulated – Nuclear Generation                                               | 10.6                          | 12.3 | 22.9                        | 24.5 |
| Regulated – Hydroelectric                                                    | 8.0                           | 7.6  | 15.9                        | 15.8 |
| Contracted Generation Portfolio <sup>1</sup>                                 | 0.8                           | 0.9  | 1.6                         | 1.8  |
| Total OPG electricity generation                                             | 19.4                          | 20.8 | 40.4                        | 42.1 |
| Total electricity generation by all other generators in Ontario <sup>2</sup> | 15.5                          | 15.8 | 34.4                        | 37.4 |

<sup>1</sup> Includes OPG's share of generation volume from its 50 percent ownership interests in PEC and Brighton Beach.

<sup>2</sup> Non-OPG generation is calculated as the Ontario electricity demand plus net exports, as published by the Independent Electricity System Operator (IESO), minus total OPG electricity generation.

Total OPG electricity generation decreased by 1.4 TWh during the second quarter of 2016 compared to the same quarter in 2015, primarily due to lower nuclear generation of 1.7 TWh. The lower nuclear generation during the second quarter of 2016 was primarily due to a higher number of planned outage days at both the Darlington GS and the Pickering GS. The higher number of outage days for the Darlington GS was primarily due to the timing of planned outages during the year. A scheduled planned outage took place at the Darlington GS in the second quarter of 2016, whereas the scheduled planned outage took place later in the year in 2015 in order to coincide with the planned four-unit Vacuum Building Outage (VBO) at the station. The timing of planned outages at a nuclear generating station during the year can cause significant variability in year-over-year operating results for partial periods of a fiscal year, but is not a significant driver of variability for full fiscal year results.

Higher generation of 0.4 TWh from the Regulated – Hydroelectric segment during the second quarter of 2016, compared to the same quarter in 2015, was primarily due to higher water flows on the Niagara, Ottawa and St. Lawrence Rivers, partially offset by a higher volume of water spilled as a result of surplus baseload generation (SBG) conditions in Ontario.

Baseload generation supply surplus to Ontario demand was higher in the second quarter of 2016 compared to the same quarter in 2015 primarily due to higher water flows in the province and limitations on the export of surplus power out of the province primarily due to transmission constraints in the state of New York. During the second quarter of 2016, OPG lost 1.8 TWh of hydroelectric generation due to SBG conditions, compared to 1.2 TWh during

the same quarter in 2015. The gross margin impact of production forgone at OPG's regulated hydroelectric stations due to SBG conditions is offset by a regulatory variance account authorized by the OEB. Ontario's electricity demand as reported by the IESO was 32.0 TWh for the second quarter of 2016, compared to 31.6 TWh during the same quarter of 2015.

For the six months ended June 30, 2016, total OPG electricity generation decreased by 1.7 TWh compared to the same period in 2015, primarily due to decreased generation from the Regulated – Nuclear Generation segment. The 1.6 TWh decrease in generation from the Regulated – Nuclear Generation segment was mainly due to a higher number of planned outage days at both the Darlington GS and the Pickering GS. The higher number of planned outage days at the Darlington GS was primarily due to the timing of scheduled planned outages in 2016 compared to 2015.

For the Regulated – Hydroelectric segment, the increase in generation of 0.1 TWh during the first half of 2016, compared to the same period in 2015, was due to higher water flows, which was largely offset by a higher amount of lost generation as a result of SBG conditions. During the six months ended June 30, 2016, OPG lost 3.4 TWh of hydroelectric generation due to SBG conditions, compared to 1.5 TWh during the same period in 2015.

For the six months ended June 30, 2016, Ontario electricity demand as reported by the IESO was 67.1 TWh, compared to 69.0 TWh for the same period in 2015.

#### Average Sales Prices

The majority of OPG's generation is from the Regulated – Nuclear Generation and Regulated – Hydroelectric segments. The regulated prices authorized by the OEB for electricity generated from OPG's nuclear and regulated hydroelectric generating stations are discussed in OPG's 2015 annual MD&A in the section, *Revenue Mechanisms for Regulated and Unregulated Generation*.

The average sales price for the Regulated – Nuclear Generation segment during the three and six month periods ended June 30, 2016 was 6.9 cents per kilowatt hour (¢/kWh), compared to 6.0 ¢/kWh during the same periods in 2015. The increase was primarily due to a higher rate rider in effect during the first half of 2016 for OPG's nuclear generation related to the recovery of variance and deferral account balances previously approved by the OEB. The average sales price for the Regulated – Hydroelectric segment during the three and six month periods ended June 30, 2016 was 4.4 ¢/kWh, compared to 4.5 ¢/kWh during the same periods in 2015. The marginal decrease was primarily due to lower rate riders in effect during 2016 for OPG's regulated hydroelectric generation related to the recovery of variance and deferral account balances. The income impact of changes in revenue from rate riders is largely offset by changes in amortization expense related to regulatory balances.

#### Cash Flow from Operations

Cash flow provided by operating activities for the three months ended June 30, 2016 was \$348 million, compared to \$450 million for the same quarter in 2015. The decrease in cash flow provided by operating activities for the three months ended June 30, 2016 was primarily due to higher OM&A expenditures and lower generation revenue receipts due to a decrease in nuclear generation, primarily as a result of the timing of planned outages at the Darlington GS during the year, partially offset by the impact of higher nuclear rate riders.

Cash flow provided by operating activities for the six months ended June 30, 2016 was \$714 million, compared to \$905 million for the same period in 2015. The decrease in cash flow provided by operating activities for the six months ended June 30, 2016 was primarily due to higher OM&A expenditures in the first half of 2016 and the payment of a supplemental rent rebate to Bruce Power in the first quarter of 2016 in relation to the period prior to December 4, 2015, pursuant to a provision under the lease agreement for the Bruce nuclear generating stations between Bruce Power and OPG (Bruce Lease). This provision was eliminated effective December 4, 2015 as part of the 2015 amendments to the lease agreement, as discussed in OPG's 2015 annual MD&A under the heading, *Recent Developments*, in the *Highlights* section. The decrease in cash flow provided by operating activities for the

first half of 2016 was partially offset by an increase in generation revenue receipts from higher nuclear rate riders, partially offset by the impact of lower nuclear generation, primarily as a result of the timing of planned outages at the Darlington GS.

#### ROE Excluding AOCI

ROE Excluding AOCI is an indicator of OPG's performance consistent with the Company's strategy to provide value to the Shareholder. ROE Excluding AOCI is measured over a 12-month period in order to normalize for seasonal fluctuations. From time to time, changes in the timing of planned outages at the nuclear generating stations during the calendar year can cause significant variability in the ROE Excluding AOCI for non-calendar 12-month periods.

ROE Excluding AOCI was 2.3 percent for the 12 months ended June 30, 2016 and 4.0 percent for the 12 months ended December 31, 2015. The decrease was primarily due to lower net income attributable to the Shareholder for the 12-month period ended June 30, 2016. With the timing of the scheduled outage at the Darlington GS in the fall of 2015 to coincide with the required four-unit VBO at the station and the timing of scheduled outages at the Darlington GS in the second quarter of 2016, a combination of higher OM&A expenses and lower nuclear generation negatively impacted ROE Excluding AOCI for the 12-month period ended June 30, 2016 by about 2 percent. The VBO is a unique outage to inspect and maintain specific safety and other systems common to all four units of the station. Another VBO outage will not be required for another 12 years at the Darlington GS.

#### FFO Adjusted Interest Coverage

FFO Adjusted Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. The indicator is measured over a 12-month period. FFO Adjusted Interest Coverage for the 12 months ended June 30, 2016 was 4.8 times, compared to 5.0 times for the 12 months ended December 31, 2015. FFO Adjusted Interest Coverage decreased in 2016 primarily due to lower cash flows provided by operating activities for the 12 months ended June 30, 2016 compared to the 12 months ended December 31, 2015, primarily due to higher OM&A expenditures, partially offset by higher generation revenue from higher nuclear rate riders and the payment of a supplemental rent rebate provision under the Bruce Lease in the first quarter of 2016.

#### Nuclear Total Generating Cost per Megawatt Hour

Nuclear Total Generating Cost (TGC) per Megawatt Hour (MWh) is used to measure the cost performance of OPG's nuclear generating assets. Nuclear TGC per MWh is defined as OM&A expenses of the Regulated – Nuclear Generation segment (excluding Darlington Refurbishment project costs, the impact of regulatory variance and deferral accounts, and expenses ancillary to OPG's nuclear electricity generation business), nuclear fuel expense for OPG-operated stations (excluding the impact of regulatory variance and deferral accounts), and capital expenditures of the Regulated – Nuclear Generation segment (excluding Darlington Refurbishment project costs) incurred during the period, divided by nuclear electricity generation. In 2015, the Nuclear TGC per MWh indicator was amended with a view to enhance comparability across periods including adjustments to remove the impact of regulatory variance and deferral accounts. The change is reflected in the comparative period presented in this MD&A. The Nuclear TGC per MWh is discussed further in the section, *Discussion of Operating Results by Business Segment*.

ROE Excluding AOCI, FFO Adjusted Interest Coverage, and Nuclear TGC are not measurements in accordance with US GAAP and should not be considered alternative measures to net income, cash flows from operating activities, or any other performance measure under US GAAP. OPG believes that these non-GAAP financial measures are effective indicators of its performance and are consistent with the Company's strategic imperatives and related objectives. The definition and calculation of ROE Excluding AOCI, FFO Adjusted Interest Coverage, and Nuclear TGC are found in the section, *Supplementary Non-GAAP Financial Measures*.

## Recent Developments

### OPG's Application for New Regulated Prices

In May 2016, OPG filed a 5-year application with the OEB for new base regulated prices for production from its regulated hydroelectric and nuclear facilities, with a proposed effective date of January 1, 2017. The new prices are expected to be determined, for the first time since OPG's prescribed assets became subject to rate regulation, on the basis of an incentive regulation ratemaking methodology for the hydroelectric operations and a custom incentive regulation basis for the nuclear operations. Rate-setting under incentive regulation is typically more formulaic and involves greater de-coupling of a regulated entity's allowed revenues or prices from its costs than under a cost-of-service rate-setting methodology. For the hydroelectric facilities, OPG's May 2016 application proposes to escalate the existing base regulated prices for each of years 2017 to 2021 based on a formula that considers an industry specific inflation factor less a productivity improvement factor, with a further price reduction intended to incent additional innovation and efficiency. For the nuclear operations, the application proposes revenue requirements for each of years 2017 to 2021 based on OPG's forecast of operating costs, reduced by an adjustment intended to incent the company to drive improvements in cost effectiveness, as well as an annual forecast of production and a return on rate base.

The proposed nuclear revenue requirements reflect OPG's plans to pursue Pickering extended operations beyond 2020, as well as the projected impact of the scheduled return to service of the first refurbished Darlington unit in the first quarter of 2020. OPG is also seeking an increase in the deemed capital structure applied to its total regulated rate base to 49 percent equity and 51 percent debt from 45 percent equity and 55 debt applied by the OEB in setting the existing regulated prices.

Consistent with the November 2015 amendment to *Ontario Regulation 53/05*, OPG's application incorporates a nuclear rate smoothing proposal, whereby collection of a portion of the approved nuclear revenue requirements will be deferred into the future. OPG expects to recognize the deferred amounts as income in the period to which the approved revenue requirements relate. In addition, OPG's application requests new rate riders, effective January 1, 2017, to recover or repay the December 31, 2015 balances in most of the OEB-authorized variance and deferral accounts, less amounts previously approved for recovery or repayment through existing rate riders in effect to December 31, 2016. The application also requests the continuation of all applicable existing variance and deferral accounts. The decision on OPG's application will be made by the OEB following a public hearing process.

Further details on the requirements of *Ontario Regulation 53/05* with respect to nuclear rate smoothing can be found in OPG's 2015 MD&A under the heading, *Amendments to Ontario Regulation 53/05*, in the *Highlights* section.

### Shareholder Declaration and Resolution to Sell Former Lakeview GS Site

In June 2016, OPG received a Shareholder Declaration and Resolution that requires the Company to sell its former Lakeview GS site located in Mississauga, Ontario. The Shareholder Resolution requires OPG to transfer to the Province the portion of the proceeds from the sale equal to the after-tax accounting gain on sale, net of transaction costs. The asset is not considered core to OPG's business.

## CORE BUSINESS, STRATEGY AND OUTLOOK

The discussion in this section is qualified in its entirety by the caution included in the section, *Forward-Looking Statements*, at the beginning of the MD&A.

OPG's mission is to provide low cost power in a safe, clean, reliable and sustainable manner for the benefit of its customers and its Shareholder. OPG also seeks to pursue, on a commercial basis, generation development projects and other business growth opportunities to the benefit of the Shareholder.

The following sections provide an update to OPG's disclosures in the 2015 annual MD&A related to its four key strategic imperatives – operational excellence, project excellence, financial strength, and social licence. A detailed discussion of these strategic imperatives is included in the 2015 annual MD&A under the headings, *Operational Excellence*, *Project Excellence*, *Financial Strength*, and *Social Licence* in the *Core Business and Strategy* section.

#### Operational Excellence

Operational excellence at OPG is accomplished by the safe and environmentally responsible generation of reliable and cost-effective electricity from the Company's generating assets through a highly trained and engaged workforce.

##### Electricity Generation Production and Reliability

- In May 2016, OPG hosted a peer evaluation for the Darlington GS by the World Association of Nuclear Operators, which compared the station against standards of excellence through an in-depth, objective review by an international panel of industry experts. The review maintained Darlington's excellent standing as one of the top performing nuclear plants in the world.
- The Sir Adam Beck Pump hydroelectric GS reservoir refurbishment project continues to progress on schedule. During the second quarter of 2016, de-watering of the existing reservoir was completed and ground preparation for liner installation work and production grouting commenced. All six units at the Sir Adam Beck Pump GS will remain out of service for the duration of the reservoir refurbishment project.
- During the second quarter of 2016, major equipment overhauls and rehabilitation work was completed at Unit 2 of the Whitedog Falls hydroelectric GS.

##### Environmental Performance

In May 2016, the Ontario legislature passed the *Climate Change Mitigation and Low-Carbon Economy Act, 2016* and the associated *Cap and Trade Program Regulation*, which became effective in July 2016. This legislation provides the foundation for regulating greenhouse gas (GHG) emissions in Ontario and includes a cap-and-trade program that will begin on January 1, 2017. The new requirements will result in increased fuel costs for some OPG-owned generating facilities and OPG's co-owned generating facilities. With OPG's low GHG emitting fleet, this is not expected to have a material adverse financial impact on the Company. OPG is developing an implementation plan for compliance with the new requirements.

Disclosures relating to the Company's environmental policies and environmental risks are provided in the 2015 annual MD&A.

## Project Excellence

OPG is pursuing a number of generation development and other projects in support of Ontario's electricity planning initiatives. The status updates for OPG's major projects as at June 30, 2016 are outlined below.

| Project<br>(millions of dollars)                              | Capital expenditures |                  | Approved budget     | Planned in-service date               | Status                                                                                                                                                                                                                 |
|---------------------------------------------------------------|----------------------|------------------|---------------------|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                               | Year-to-date         | Life-to-date     |                     |                                       |                                                                                                                                                                                                                        |
| Darlington Refurbishment                                      | 446                  | 2,612            | 12,800 <sup>1</sup> | First unit - 2020<br>Last unit - 2026 | On track to commence Unit 2 refurbishment, as scheduled, in the fourth quarter of 2016. See update below.                                                                                                              |
| Deep Geologic Repository for Low and Intermediate Level Waste | 5 <sup>2</sup>       | 191 <sup>2</sup> |                     |                                       | Additional information required by the Canadian Environmental Assessment Agency (CEAA) is being prepared. In April 2016, OPG informed the CEAA that it expects to submit the requested information by the end of 2016. |
| Peter Sutherland Sr. GS                                       | 67                   | 162              | 300                 | First half of 2018                    | The project is tracking on budget and on schedule. See update below.                                                                                                                                                   |

<sup>1</sup> The total project budget of \$12.8 billion is for the refurbishment of the four units at the Darlington GS, with the last unit scheduled to be completed by 2026. OPG plans to commence subsequent unit refurbishments after the first unit scheduled to undergo refurbishment, Unit 2, is successfully returned to service.

<sup>2</sup> Expenditures are funded by the nuclear fixed asset removal and nuclear waste management liabilities (Nuclear Liabilities).

### Darlington Refurbishment

The Darlington generating units are approaching their originally designed end-of-life. Refurbishment of the units is expected to extend the operating life of the station by approximately 30 years.

In January 2016, the Darlington Refurbishment project transitioned from the planning phase to the execution phase. OPG has begun the preparation for the refurbishment of the first unit, Unit 2, and is on track to commence the unit's refurbishment in the fourth quarter of 2016. The Government of Ontario's support for the Darlington Refurbishment project has been affirmed through the Minister of Energy's announcement in January 2016 endorsing OPG's plan to refurbish the four Darlington units. OPG plans to commence subsequent unit refurbishments after Unit 2 is successfully returned to service, and expects to seek the Province's concurrence prior to proceeding with subsequent unit refurbishments. Once refurbished, Unit 2 is scheduled to be returned to service in the first quarter of 2020, at which time capital expenditures of approximately \$4.8 billion are planned to be placed in service. This includes expenditures incurred during the definition and planning phase of the project.

Preparation activities on the major sub-projects are progressing in line with the first unit's refurbishment schedule. The manufacturing of the specialized tooling that will be used to remove and replace fuel channel assemblies and feeder tubes in each reactor has been completed, and the tooling was delivered to OPG's reactor training and mock-up facility in the second quarter of 2016, as planned. Extensive tool testing and refurbishment task rehearsals are in progress at OPG's full-scale reactor mock-up facility. All of the tools and materials required to de-fuel the Unit 2 reactor also have been delivered. De-fueling is the first critical refurbishment activity once the unit is removed from service.

Execution of pre-breaker open work to support the first unit's refurbishment continues and is expected to be substantially completed prior to the commencement of refurbishment activities on the first unit. Project support activities and activities in support of requirements set out in the Canadian Nuclear Safety Commission (CNSC)

approved Integrated Implementation Plan for the Darlington GS are also underway. Pre-requisite projects including construction of facilities, infrastructure upgrades and installation of safety enhancements have either been completed or are tracking to be completed in line with the refurbishment execution schedule.

#### Peter Sutherland Sr. GS

The project to construct the Peter Sutherland Sr. hydroelectric generating station is tracking on budget and on schedule. Construction work on the project continued during the second quarter of 2016, including the completion of the coffer dam rebuild, headpond clearing activities, power house concreting and slope stabilization of the intake canal. Work continues to progress on the powerhouse superstructure and spillway concreting.

#### Financial Strength

As a commercial enterprise, OPG's financial priority is to achieve a consistent level of strong financial performance that delivers an appropriate level of return on the Shareholder's investment and positions the Company for future growth.

#### Increase Revenue, Reduce Costs and Achieve Appropriate Return

In the second quarter of 2016, OPG filed a 5-year application with the OEB for new base regulated prices for production from its regulated hydroelectric and nuclear facilities, with a proposed effective date of January 1, 2017. OPG's application incorporates a nuclear rate smoothing proposal, with a view of making more stable year-over-year changes in the nuclear base regulated prices during the Darlington Refurbishment period. The application seeks to ensure that nuclear regulated prices under the rate smoothing approach allow for sufficient cash flow to meet the Company's liquidity needs, support cost-effective funding for the Darlington Refurbishment project and other expenditures, and maintain the Company's investment grade credit rating, while taking into account both near-term and future impacts on customers. Refer to the heading, *Recent Developments* under the *Highlights* section for further information on OPG's rate application.

#### Ensure Availability of Cost Effective Funding

In April 2016, DBRS Ltd. re-affirmed the long-term credit rating on OPG's debt at A (low) and OPG's commercial paper rating at R-1 (low). All ratings from DBRS Ltd. have a stable outlook. In July 2016, Standard & Poor's re-affirmed OPG's long-term credit rating at BBB+ with a stable outlook.

#### Outlook

The financial performance of OPG's regulated operations is driven, in large part, by the outcome of applications for regulated prices to the OEB. The existing base regulated prices were established by the OEB in late-2014 based on a forecast of revenue requirement and production for the regulated facilities for the 2014 to 2015 period. The outcome of the OEB rate application for new base regulated prices, which was submitted in May 2016, is expected to provide substantial price certainty for the regulated business for the 2017 to 2021 period. Further discussion regarding OPG's rate application to the OEB can be found under the heading, *Recent Developments*, in the *Highlights* section.

In addition to receiving base regulated prices, during 2016, OPG is authorized to recover over \$600 million in previously approved variance and deferral account balances, through rate riders established by the OEB in October 2015. While the income impact of the additional revenue from the riders will be largely offset by a corresponding increase in amortization expense related to regulatory balances resulting in no significant net income impact, the recovery of the balances will favourably impact operating cash flow and the FFO Adjusted Interest Coverage indicator for 2016. The existing rate riders will expire on December 31, 2016.

Several OEB-authorized regulatory variance and deferral accounts currently in place contribute to reducing the relative variability of the Company's income and ROE Excluding AOCI. Among others, this includes existing variance

accounts related to the gross margin impact of variability in regulated hydroelectric water flows and SBG conditions, which are expected to continue to result in generally more stable earnings from the Regulated – Hydroelectric segment, compared to the Regulated – Nuclear Generation segment. There is currently no regulatory variance or deferral account related to the impact of generation performance of the OPG-operated nuclear stations on revenue from base regulated prices. OPG continues to operate and maintain its nuclear facilities with a view to optimize their performance and availability, while improving the overall reliability and predictability of the fleet. OPG's May 2016 rate application requested the continuation of all applicable variance and deferral accounts.

Electricity generated from most of OPG's non-regulated assets is subject to Energy Supply Agreements with the IESO. Based on these agreements, OPG expects the Contracted Generation Portfolio segment to generate a generally stable level of earnings and cash flow going forward.

OPG's forecast capital expenditures for 2016 are approximately \$1.8 billion. This includes amounts for the Darlington Refurbishment project, hydroelectric development projects including the construction of the Peter Sutherland Sr. GS, and sustaining capital investments across the generating fleet.

In addition to the operating and financial performance of the electricity generation business, OPG's results are impacted by the earnings on the Nuclear Funds established pursuant to the Ontario Nuclear Funds Agreement (ONFA) to fund expenditures associated with the long-term management of used nuclear fuel and low and intermediate level waste (L&ILW) and the decommissioning of OPG's nuclear stations and waste management facilities. While these funds are managed to achieve, in the long term, the target rate of return based on the discount rate specified in the ONFA, the rates of return earned in a given reporting period are subject to various external factors including financial market conditions and changes in the Ontario consumer price index, which can be volatile in the short-term and cause potentially significant short-term fluctuations in the Company's income, net of the impact of a regulatory variance account.

## DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

### Regulated – Nuclear Generation Segment

| <i>(millions of dollars) (unaudited)</i>                     | Three Months Ended<br>June 30 |           | Six Months Ended<br>June 30 |            |
|--------------------------------------------------------------|-------------------------------|-----------|-----------------------------|------------|
|                                                              | 2016                          | 2015      | 2016                        | 2015       |
| Revenue                                                      | 820                           | 810       | 1,746                       | 1,623      |
| Fuel expense                                                 | 79                            | 79        | 160                         | 157        |
| Gross margin                                                 | 741                           | 731       | 1,586                       | 1,466      |
| Operations, maintenance and administration                   | 581                           | 513       | 1,144                       | 1,039      |
| Depreciation and amortization                                | 231                           | 113       | 461                         | 227        |
| Property taxes                                               | 6                             | 6         | 13                          | 13         |
| (Loss) income before other gains, interest, and income taxes | (77)                          | 99        | (32)                        | 187        |
| Other gains                                                  | (1)                           | -         | (2)                         | -          |
| <b>(Loss) income before interest and income taxes</b>        | <b>(76)</b>                   | <b>99</b> | <b>(30)</b>                 | <b>187</b> |

During the three and six month periods ended June 30, 2016, segment losses before interest and income taxes were \$76 million and \$30 million, respectively. The primary factor contributing to the lower segment earnings during these periods, compared to the same periods in 2015, was the timing of scheduled planned outage activities at the Darlington GS during the year and an increase in planned outage activities at the Pickering GS, both of which decreased nuclear generation and increased OM&A expenses. A scheduled planned outage took place at the Darlington GS in the second quarter of 2016, whereas a scheduled planned outage took place in the fall of 2015 in order to coincide with the scheduled four-unit VBO at the station.

Notwithstanding the reduced generation during the three and six month periods ended June 30, 2016, segment revenues increased, compared to the same periods in 2015, due to a higher rate rider authorized by the OEB in October 2015 to the end of December 31, 2016. The resulting nuclear rate rider of \$10.84/MWh in effect during the first half of 2016 was higher than the rate rider of \$1.33/MWh in effect during the three and six month periods ended June 30, 2015. As these rate riders allow for the recovery of approved balances in OEB-authorized regulatory variance and deferral accounts, the resulting increase in revenue in 2016 was largely offset by higher amortization expense related to the regulatory balances.

The Unit Capability Factors for the Darlington and Pickering generating stations and the Nuclear TGC per MWh were as follows:

|                              | Three Months Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|------------------------------|-------------------------------|-------|-----------------------------|-------|
|                              | 2016                          | 2015  | 2016                        | 2015  |
| Unit Capability Factor (%)   |                               |       |                             |       |
| Darlington GS                | 75.9                          | 91.5  | 86.6                        | 94.7  |
| Pickering GS                 | 71.4                          | 80.0  | 72.1                        | 76.5  |
| Nuclear TGC per MWh (\$/MWh) | 69.25                         | 57.56 | 62.44                       | 57.52 |

The lower Unit Capability Factor at the Darlington GS for the three and six month periods ended June 30, 2016, compared to the same periods in 2015, primarily reflected the higher number of planned outage days due to the timing of scheduled outages at the station in 2016 compared to 2015. The decrease in Unit Capability Factor at the Pickering GS for the three and six month periods ended June 30, 2016 was primarily due to a higher number of planned outage days compared to 2015. The timing of planned outages at a nuclear generating station during the year can cause significant variability in year-over-year operating results for partial periods of a fiscal year, but is not a significant driver of variability for full fiscal year results.

The increase in Nuclear TGC per MWh during the three and six month periods ended June 30, 2016, compared to the same periods in 2015, primarily reflected decreased production and higher OM&A expenses resulting from the timing of planned outages during the year. The definition and calculation of Nuclear TGC are found under the section, *Supplementary Non-GAAP Financial Measures*.

#### Regulated – Nuclear Waste Management Segment

|                                                                                   | Three Months Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|-----------------------------------------------------------------------------------|-------------------------------|-------|-----------------------------|-------|
|                                                                                   | 2016                          | 2015  | 2016                        | 2015  |
| <i>(millions of dollars) (unaudited)</i>                                          |                               |       |                             |       |
| Revenue                                                                           | 32                            | 29    | 66                          | 61    |
| Operations, maintenance and administration                                        | 34                            | 30    | 70                          | 64    |
| Accretion on nuclear fixed asset removal and nuclear waste management liabilities | 228                           | 221   | 456                         | 441   |
| Earnings on nuclear fixed asset removal and nuclear waste management funds        | (225)                         | (141) | (372)                       | (372) |
| Loss before interest and income taxes                                             | (5)                           | (81)  | (88)                        | (72)  |

Higher earnings on the Decommissioning Fund, net of the impact of the Bruce Lease Net Revenues Variance Account, was the primary driver for the increase in segment earnings during the second quarter of 2016, compared to the same quarter in 2015. The earnings on the Decommissioning Fund during the second quarter of 2016 reflected the growth rate in the decommissioning liability per the current approved ONFA Reference Plan, as the fund was between 100 percent and 120 percent funded compared to the decommissioning liability. Based on the terms of the ONFA, when the Decommissioning Fund is in an overfunded position of up to 120 percent, earnings on the fund recognized in net income are not impacted by market returns and are based on the growth rate in the

decommissioning liability such that the balance of the fund is equal to the liability. When the Decommissioning Fund is in an overfunded position of over 120 percent, fund earnings recognized in net income are impacted by market returns, as OPG recognizes 50 percent of the surplus over 120 percent based on the terms of the ONFA. As the Decommissioning Fund was over 120 percent funded during the second quarter of 2015, lower market returns in relation to the growth rate in the decommissioning liability unfavourably impacted the earnings on the fund during the quarter.

Higher earnings from the Used Fuel Fund, net of the impact of the Bruce Lease Net Revenue Variance Account, also contributed to an improvement to the segment earnings during the second quarter of 2016, compared to the same period in 2015. The increase in Used Fuel Fund earnings was primarily due to favourable market conditions impacting the returns on the portion of the fund in excess of the 2.23 million bundles, which are not guaranteed by the Province.

In December 2015, OPG recognized an increase in the Nuclear Liabilities reflecting revised accounting assumptions for the estimated useful lives of its nuclear generating stations. As a result, higher accretion expense on the Nuclear Liabilities was recognized during the three and six month periods ended June 30, 2016, compared to the same periods in 2015. The increased accretion expense was largely offset by the impact of the Bruce Lease Net Revenues Variance Account.

#### Regulated – Hydroelectric Segment

| (millions of dollars) (unaudited)                             | Three Months Ended<br>June 30 |      | Six Months Ended<br>June 30 |      |
|---------------------------------------------------------------|-------------------------------|------|-----------------------------|------|
|                                                               | 2016                          | 2015 | 2016                        | 2015 |
| Revenue <sup>1</sup>                                          | 413                           | 409  | 798                         | 803  |
| Fuel expense                                                  | 92                            | 89   | 171                         | 160  |
| Gross margin                                                  | 321                           | 320  | 627                         | 643  |
| Operations, maintenance and administration                    | 75                            | 79   | 151                         | 155  |
| Depreciation and amortization                                 | 57                            | 60   | 113                         | 120  |
| Income before other losses (gains), interest and income taxes | 189                           | 181  | 363                         | 368  |
| Other losses (gains)                                          | 2                             | -    | (20)                        | -    |
| Income before interest and income taxes                       | 187                           | 181  | 383                         | 368  |

<sup>1</sup> During the three and six month periods ended June 30, 2016, the Regulated – Hydroelectric segment revenue included incentive payments of \$1 million and \$2 million, respectively, related to the OEB-approved hydroelectric incentive mechanism (three and six month periods ended June 30, 2015 – \$4 million and \$14 million, respectively). The mechanism provides a pricing incentive to OPG to shift hydroelectric production from lower market price periods to higher market price periods, reducing the overall costs to customers.

Income before interest and income taxes increased by \$6 million during the second quarter of 2016, compared to the same quarter in 2015. The increase in income was largely the result of slightly lower OM&A expenses.

The increase in income before interest and income taxes of \$15 million during the six months ended June 30, 2016, compared to the same period in 2015, was largely due to a gain of \$22 million recognized during the first quarter of 2016 to reflect the OEB's January 2016 decision to reverse a portion of an earlier capital cost disallowance related to the Niagara Tunnel project expenditures. The OEB's January 2016 decision was in response to OPG's motion that requested the OEB to review and vary parts of its November 2014 decision that resulted in the original disallowance.

The increase in segment earnings during the six months ended June 30, 2016, compared to the same period in 2015, was partly offset by lower hydroelectric incentive mechanism payments.

The Hydroelectric Availability and Hydroelectric OM&A expense per MWh for the stations included in the Regulated – Hydroelectric segment were as follows:

|                                             | Three Months Ended<br>June 30 |      | Six Months Ended<br>June 30 |      |
|---------------------------------------------|-------------------------------|------|-----------------------------|------|
|                                             | 2016                          | 2015 | 2016                        | 2015 |
| Hydroelectric Availability (%)              | <b>90.4</b>                   | 92.1 | <b>92.6</b>                 | 91.8 |
| Hydroelectric OM&A expense per MWh (\$/MWh) | <b>9.4</b>                    | 10.5 | <b>9.5</b>                  | 9.8  |

Hydroelectric Availability for the second quarter of 2016 decreased compared to the same quarter of 2015 due to an increase in planned and unplanned outage days for the regulated stations. The Hydroelectric Availability during the six months ended June 30, 2016 increased slightly compared to the same period in 2015.

The decrease in Hydroelectric OM&A Expense per MWh for the three and six month periods ended June 30, 2016, compared to the same periods in 2015, was primarily due to lower OM&A expenses and higher generation.

#### Contracted Generation Portfolio Segment

|                                                          | Three Months Ended<br>June 30 |      | Six Months Ended<br>June 30 |      |
|----------------------------------------------------------|-------------------------------|------|-----------------------------|------|
|                                                          | 2016                          | 2015 | 2016                        | 2015 |
| <i>(millions of dollars) (unaudited)</i>                 |                               |      |                             |      |
| Revenue                                                  | <b>137</b>                    | 144  | <b>282</b>                  | 267  |
| Fuel expense                                             | <b>11</b>                     | 11   | <b>23</b>                   | 18   |
| Gross margin                                             | <b>126</b>                    | 133  | <b>259</b>                  | 249  |
| Operations, maintenance and administration               | <b>45</b>                     | 44   | <b>85</b>                   | 88   |
| Depreciation and amortization                            | <b>18</b>                     | 18   | <b>37</b>                   | 35   |
| Accretion on fixed asset removal liabilities             | <b>2</b>                      | 2    | <b>4</b>                    | 4    |
| Property taxes                                           | <b>3</b>                      | 2    | <b>5</b>                    | 4    |
| Income from investments subject to significant influence | <b>(9)</b>                    | (11) | <b>(17)</b>                 | (22) |
| Income before interest and income taxes                  | <b>67</b>                     | 78   | <b>145</b>                  | 140  |

Income before interest and income taxes decreased by \$11 million during the second quarter of 2016, compared to the same quarter in 2015. The decrease was primarily due to lower revenues from the Lower Mattagami River hydroelectric generating stations and the biomass-powered Atikokan GS.

Income before interest and income taxes increased by \$5 million during the six months ended June 30, 2016, compared to the same period in 2015. The increase was primarily due to lower earnings in the first quarter of 2015 as a result of a provision made in that quarter related to an IESO audit.

The Hydroelectric Availability, Hydroelectric OM&A Expense per MWh, and the Thermal Equivalent Forced Outage Rate (EFOR) for the Contracted Generation Portfolio segment were as follows:

|                                             | Three Months Ended<br>June 30 |      | Six Months Ended<br>June 30 |      |
|---------------------------------------------|-------------------------------|------|-----------------------------|------|
|                                             | 2016                          | 2015 | 2016                        | 2015 |
| Hydroelectric Availability (%)              | <b>87.0</b>                   | 95.3 | <b>85.5</b>                 | 96.5 |
| Hydroelectric OM&A Expense per MWh (\$/MWh) | <b>17.5</b>                   | 19.0 | <b>19.3</b>                 | 20.7 |
| Thermal EFOR (%)                            | <b>1.0</b>                    | 10.3 | <b>1.0</b>                  | 17.5 |

Lower Hydroelectric Availability during the three and six month periods ended June 30, 2016, compared to the same periods in 2015, was primarily due to an increase in the number of planned outage days at the Harmon GS and Kipling GS.

The Hydroelectric OM&A Expense per MWh decreased during the three and six month periods ended June 30, 2016 primarily as a result of a decrease in OM&A expenses from the hydroelectric stations included in the segment.

The decrease in the Thermal EFOR during the three and six month periods ended June 30, 2016, compared to the same periods in 2015, was primarily due to a higher number of unplanned outage days at the Lennox GS in 2015.

Services, Trading, and Other Non-Generation Segment

| <i>(millions of dollars) (unaudited)</i>                     | Three Months Ended<br>June 30 |      | Six Months Ended<br>June 30 |      |
|--------------------------------------------------------------|-------------------------------|------|-----------------------------|------|
|                                                              | 2016                          | 2015 | 2016                        | 2015 |
| Revenue                                                      | 16                            | 19   | 37                          | 43   |
| Fuel expense                                                 | -                             | 1    | -                           | 2    |
| Gross margin                                                 | 16                            | 18   | 37                          | 41   |
| Operations, maintenance and administration                   | 5                             | 12   | 9                           | 28   |
| Depreciation and amortization                                | 10                            | 9    | 17                          | 14   |
| Accretion on fixed asset removal liabilities                 | 2                             | 1    | 4                           | 3    |
| Property taxes                                               | 2                             | 4    | 5                           | 8    |
| Restructuring                                                | -                             | 1    | -                           | 1    |
| (Loss) income before other gains, interest, and income taxes | (3)                           | (9)  | 2                           | (13) |
| Other gains                                                  | (2)                           | -    | (2)                         | -    |
| (Loss) income before interest and income taxes               | (1)                           | (9)  | 4                           | (13) |

Segment earnings improved by \$8 million during the second quarter of 2016, compared to the same quarter in 2015 and by \$17 million for the six months ended June 30, 2016, compared to the same period in 2015. The improvement in earnings reflected higher OM&A expenses incurred in 2015 partly in relation to the Nanticoke GS prior to OPG's decision to proceed with the decommissioning of the station. The decrease in the OM&A expenses during the three and six month periods ended June 30, 2016 also reflected lower staffing levels in 2016.

The improvement in segment earnings for the six months ended June 30, 2016 was partially offset by lower electricity trading revenue compared to the same period in 2015.

Expenditures related to decommissioning activities for Nanticoke GS incurred during the first six months of 2016 were charged against a previously established decommissioning provision.

## LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing, credit facilities provided by the Ontario Electricity Financial Corporation (OEFC), long-term corporate debt, and capital market financing. These sources are used for multiple purposes, including: investment in plants and technologies; major projects; funding obligations such as contributions to the pension fund and the Nuclear Funds; payments under the OPEB plans; expenditures on fixed asset removal and nuclear waste management activities not funded by the Nuclear Funds; and servicing and repaying long-term debt.

Changes in cash and cash equivalents for the three and six month periods ended June 30 are as follows:

| (millions of dollars) (unaudited)                    | Three Months Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|------------------------------------------------------|-------------------------------|-------|-----------------------------|-------|
|                                                      | 2016                          | 2015  | 2016                        | 2015  |
| Cash and cash equivalents, beginning of period       | 540                           | 534   | 464                         | 610   |
| Cash flow provided by operating activities           | 348                           | 450   | 714                         | 905   |
| Cash flow used in investing activities               | (586)                         | (352) | (896)                       | (628) |
| Cash flow (used in) provided by financing activities | (7)                           | (57)  | 13                          | (312) |
| Net (decrease) increase                              | (245)                         | 41    | (169)                       | (35)  |
| Cash and cash equivalents, end of period             | 295                           | 575   | 295                         | 575   |

For a discussion of cash flow provided by operating activities and FFO Adjusted Interest Coverage, refer to the *Highlights* sections.

#### Investing Activities

Cash flow used in investing activities during the second quarter of 2016 increased by \$234 million and by \$268 million for the six month period ended June 30, 2016, compared to the same periods in 2015. The increase in the use of cash for investing activities during these periods was primarily due to the acquisition of nine million common shares of Hydro One Limited (Hydro One) at \$23.65 per share in April 2016. The acquisition was made for investment purposes to mitigate the risk of future price volatility related to OPG's future share delivery obligations to eligible employees under the collective agreements with the Power Workers' Union (PWU) and The Society of Energy Professionals (The Society) renewed in 2015. The acquisition of the shares is further discussed in Note 2 of the Company's second quarter 2016 unaudited interim consolidated financial statements.

#### Financing Activities

Cash flow used in financing activities during the three months ended June 30, 2016 was \$7 million, compared to \$57 million for the same period in 2015. The higher cash flow used in financing activities during the second quarter of 2015 was primarily due to the repayment of short-term notes of \$50 million during the second quarter of 2015.

Cash flow provided by financing activities during the six months ended June 30, 2016 was \$13 million, compared to cash flow used of \$312 million for the same period in 2015. The cash flow used in financing activities for the six months ended June 30, 2015 reflected the repayment of \$302 million of long-term debt during the first half of 2015.

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches. In the second quarter of 2016, OPG renewed and extended the expiry date of both tranches from May 2020 to May 2021. As at June 30, 2016, there were no outstanding borrowings under the bank credit facility.

As at June 30, 2016, OPG also maintained \$25 million of short-term, uncommitted overdraft facilities, and a further \$453 million of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes. As at June 30, 2016, a total of \$382 million of Letters of Credit had been issued under these facilities. This included \$345 million for the supplementary pension plans, \$36 million for general corporate purposes, and \$1 million related to the operation of the PEC.

The Company has an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust. The maximum amount of co-ownership interest that can be sold under this agreement is \$150 million. The agreement expires on November 30, 2016. As at June 30, 2016, there were Letters

of Credit outstanding under this agreement of \$150 million, which were issued in support of OPG's supplementary pension plan.

As at June 30, 2016, the Lower Mattagami Energy Limited Partnership (LME) maintained a \$500 million bank credit facility to support the funding requirements for the Lower Mattagami River Project, including support for LME's commercial paper program. The facility consists of a \$300 million tranche maturing in August 2020 and a \$200 million tranche maturing in August 2016. OPG expects to extend the maturity of the \$300 million tranche to August 2021 and the \$200 million tranche to August 2017 in the third quarter of 2016. As at June 30, 2016, there was external commercial paper of \$245 million outstanding under LME's commercial paper program and no amounts outstanding under LME's credit facility.

In December 2014, OPG entered into an \$800 million general corporate credit facility agreement with the OEFC in support of its financing requirements for 2015 and 2016. As at June 30, 2016, there were no outstanding borrowings under this credit facility, which expires on December 31, 2016. In June 2016, OPG entered into a \$700 million general corporate credit facility agreement with the OEFC, which expires on December 31, 2017.

As at June 30, 2016, OPG's long-term debt outstanding was \$5,457 million, including \$483 million due within one year. OPG continues to evaluate debt refinancing alternatives.

## BALANCE SHEET HIGHLIGHTS

The following section provides highlights of OPG's unaudited interim consolidated financial position using selected balance sheet data:

| <i>(millions of dollars) (unaudited)</i>                                                                                                                                                                                                     | As At           |                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------------|
|                                                                                                                                                                                                                                              | June 30<br>2016 | December 31<br>2015 |
| <b>Property, plant and equipment - net</b>                                                                                                                                                                                                   | <b>21,018</b>   | 20,595              |
| The increase was primarily due to capital expenditures on the Darlington Refurbishment project, partially offset by depreciation expense.                                                                                                    |                 |                     |
| <b>Nuclear fixed asset removal and nuclear waste management funds<br/>(current and non-current portions)</b>                                                                                                                                 | <b>15,566</b>   | 15,136              |
| The increase was primarily due to earnings on the Nuclear Funds and contributions to the Used Fuel Fund, partially offset by reimbursements of eligible expenditures on nuclear fixed asset removal and nuclear waste management activities. |                 |                     |
| <b>Fixed asset removal and nuclear waste management liabilities</b>                                                                                                                                                                          | <b>20,621</b>   | 20,169              |
| The increase was primarily a result of accretion expense representing the increase in the liabilities due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities.           |                 |                     |
| <b>Available-for-sale securities</b>                                                                                                                                                                                                         | <b>234</b>      | -                   |
| The balance as at June 30, 2016 represents the fair value of the nine million Hydro One shares acquired in April 2016, as discussed in Note 2 of the Company's second quarter 2016 unaudited interim consolidated financial statements.      |                 |                     |

### Pension & OPEB Cash Versus Accrual Differential Deferral Account

In setting OPG's regulated prices effective November 1, 2014, the OEB limited amounts for pension and OPEB and costs allowed in the approved revenue requirements to the regulated business portion of the Company's cash expenditures for its pension and OPEB plans. Effective November 1, 2014, the OEB also authorized the Pension & OPEB Cash Versus Accrual Differential Deferral Account, which records the difference between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis under US GAAP and OPG's corresponding actual cash expenditures for these plans. The OEB's November 2014 decision indicated that the future recovery, if any, of amounts recorded in the deferral account would be subject to the outcome of a future generic OEB proceeding on the regulatory treatment and recovery of pension and OPEB costs and that a transition from the accrual basis of recovery of OPG, if required would be addressed in a future OPG rate proceeding, informed by the outcome of the future generic proceeding related to the regulated treatment and recovery of pension and OPEB costs. The Company has recognized the amount set aside in the Pension & OPEB Cash Versus Accrual Differential Deferral account as a regulatory asset. As at June 30, 2016, the regulatory asset balance was \$378 million, which represents the excess of pension and OPEB costs calculated using the accrual basis over the cash basis for the period from November 1, 2014 to June 30, 2016.

In May 2015, the OEB began a consultation process to develop standard principles to guide its future review of pension and OPEB costs of rate regulated utilities in the electricity and natural gas sectors, including establishing appropriate regulatory mechanisms for cost recovery. In July 2016, the OEB held a public stakeholder forum as part of the consultation. OPG is participating in the consultation, which is continuing. If, as part of this consultation or in a future proceeding, the OEB decides that the recovery basis for OPG's pension and OPEB amounts should be changed from the accrual basis, OPG may be required to adjust the regulatory asset recorded for the Pension & OPEB Cash Versus Accrual Differential Deferral Account.

#### Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under US GAAP, are either not recorded in the Company's interim consolidated financial statements or are recorded in the Company's interim consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities for OPG include guarantees and long-term contracts.

### CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies are outlined in Note 3 to the audited consolidated financial statements as at and for the year ended December 31, 2015. A discussion of recent accounting pronouncements is included in Note 2 to OPG's unaudited interim consolidated financial statements as at and for the three and six month periods ended June 30, 2016 under the section, *Changes in Accounting Policies and Estimates*. Disclosure regarding OPG's critical accounting policies is included in OPG's 2015 annual MD&A.

### RISK MANAGEMENT

The following provides an update to the discussion of the Company's risks and risk management activities included in OPG's 2015 annual MD&A. As such, the disclosure in this section should be read in conjunction with the *Risk Management* section included in the annual MD&A.

#### Regulatory and Legislative Risks

##### Rate Regulation

*As inherent in regulatory proceedings, significant uncertainties remain regarding the outcome of rate and generic proceedings for OPG's rate regulated operations.*

In May 2016, OPG applied to the OEB for new regulated prices effective January 1, 2017, on the basis of an incentive regulation rate making methodology for hydroelectric operations and a custom incentive regulation ratemaking methodology for the nuclear operations. If accepted by the OEB, both approaches would result in greater decoupling of OPG's revenues for the regulated operations from their costs. There is an inherent risk that the new prices established by the OEB may not provide for the recovery of all actual costs incurred by OPG's regulated operations or may not allow the regulated operations to earn an appropriate rate of return based on actual results. As the proposed custom incentive regulation methodology for the nuclear operations builds on OPG's forecast of operating costs and production and a return on rate base, including OPG's plans to pursue Pickering extended operations until 2024 and the scheduled return to service of the first refurbished Darlington unit in the first quarter of 2020, the Company remains exposed to risks of the OEB not accepting certain levels of costs or other elements of OPG's forecasts reflected in the application. There are also inherent uncertainties regarding the effective date that the OEB will establish for the new regulated prices.

Consistent with the November 2015 amendment to *Ontario Regulation 53/05*, OPG's application includes a nuclear rate smoothing proposal, with a view of making more stable year-over-year changes in the nuclear base regulated prices during the Darlington Refurbishment period. There is an inherent risk that the magnitude of the deferral ordered by the OEB will result in regulated prices that do not provide sufficient cash flow to the Company for meeting its financial objectives in the optimal manner, including ensuring sufficient liquidity, cost effectively funding the Darlington Refurbishment project and other expenditures, and maintaining the Company's investment grade credit rating. Maintaining adequate levels of credit metrics will support OPG's investment grade credit rating. As such, OPG has advanced credit metrics as a key criterion for the OEB to apply in determining the smoothed nuclear base rates.

#### Financial Risks

##### Commodity Markets

*Changes in the market price of fuels used to produce electricity can adversely impact OPG's earnings and cash flow from operations.*

To manage the risk of unpredictable increases in the price of fuels, the Company has fuel hedging programs, which include fixed price and indexed contracts.

The percentages hedged of OPG's fuel requirements are shown in the following table. These amounts are based on yearly forecasts of generation and supply mix, and as such, are subject to change as these forecasts are updated.

|                                                 | 2016 <sup>1</sup> | 2017 | 2018 |
|-------------------------------------------------|-------------------|------|------|
| Estimated fuel requirements hedged <sup>2</sup> | 75%               | 74%  | 75%  |

<sup>1</sup> Based on actual fuel requirements hedged for the six months ended June 30, 2016 and forecast for the remainder of the year.

<sup>2</sup> Represents the approximate portion of megawatt-hours of expected generation production (and year-end inventory targets) from each type of OPG-operated facility (nuclear and thermal) for which the Company has entered into contractual arrangements or obligations in order to secure the price of fuel. Excess fuel inventories in a given year are attributed to the next year for the purpose of measuring hedge ratios.

##### Foreign Exchange

*OPG's earnings and cash flows can be affected by movements in the United States dollar (USD) relative to the Canadian dollar.*

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are primarily denominated in, or tied to USD. To manage this risk, OPG employs various financial instruments such as forwards and other derivative contracts, in accordance with approved risk management policies. As at June 30, 2016, OPG had foreign exchange contracts outstanding with a total notional value of USD \$5 million.

##### Trading

*OPG's financial performance can be affected by its trading activities.*

OPG's electricity trading operations are closely monitored, with total exposures measured and reported to senior management on a daily basis. The main metric used to measure the financial risk of trading activity is Value at Risk (VaR). VaR is defined as a probabilistic maximum potential future loss expressed in monetary terms for a portfolio based on normal market conditions over a set period of time. For the second quarter of 2016, the VaR utilization ranged between \$0.1 million and \$0.5 million.

## Credit

*Deterioration in counterparty credit and non-performance by suppliers and contractors can adversely impact OPG's earnings and cash flows from operations.*

OPG manages its exposure to suppliers or counterparties by evaluating their financial condition and negotiating appropriate collateral or other forms of security. OPG's credit exposure relating to energy markets transactions as at June 30, 2016 was \$490 million, including \$478 million to the IESO. Management considers the Company's risk exposure relating to electricity sales through the IESO-administered spot market to be low as the IESO oversees the credit worthiness of all market participants. In accordance with the IESO's prudential support requirements, market participants are required to provide collateral to cover funds that they might owe to the market. Over 95 percent of the remaining \$12 million exposure as at June 30, 2016 was related to investment grade counterparties.

## Nuclear Waste Management and Decommissioning Obligations, and Nuclear Funds

*The cost estimates for nuclear waste management and decommissioning obligations are based on assumptions that evolve over time and could impact OPG's future contributions to the Nuclear Funds to cover these obligations.*

OPG is responsible for the management of used nuclear fuel and L&ILW, and the decommissioning of its nuclear stations and waste management facilities. The cost estimates for OPG's nuclear waste management and decommissioning obligations are based on multiple underlying assumptions and estimates that are inherently uncertain. The assumptions include station end-of-life dates, waste volumes, waste disposal methods, the timing of construction of assumed waste disposal facilities including the assumed nuclear used fuel deep geologic repository consistent with the Adaptive Phased Management concept approved by the Government of Canada and OPG's proposed L&ILW deep geologic repository, waste packaging systems, decommissioning strategy, and financial indicators. To address the inherent uncertainty, OPG undertakes to perform a comprehensive review of the underlying assumptions and baseline cost estimates at least once every five years, in line with the ONFA Reference Plan update process. An approved ONFA Reference Plan determines OPG's contributions to the Nuclear Funds.

OPG is currently reviewing its estimates for the nuclear waste management and decommissioning obligations. By the end of 2016, a comprehensive reassessment of the underlying assumptions and lifecycle baseline cost estimates is expected to be completed and finalized for the Province's approval as part of the ONFA Reference Plan update process. A change in the obligations can change OPG's future required contributions under the ONFA. An update to the cost estimates may also result in a change in OPG's nuclear asset retirement obligation and related asset retirement costs capitalized to property, plant and equipment. The updated ONFA Reference Plan is expected to be effective January 1, 2017.

## RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province and other entities controlled by the Province.

The related party transactions summarized below include transactions with the Province and the principal successors to the former Ontario Hydro's integrated electricity business, including Hydro One, the IESO and the OEFC. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As one of several wholly-owned government business enterprises of the Province, OPG also has transactions in the normal course of business with various government ministries and organizations in Ontario that fall under the purview of the Province.

The related party transactions are summarized below:

| (millions of dollars) (unaudited)                    | Three Months Ended<br>June 30 |         |         |         |
|------------------------------------------------------|-------------------------------|---------|---------|---------|
|                                                      | 2016                          |         | 2015    |         |
|                                                      | Revenue                       | Expense | Revenue | Expense |
| Hydro One                                            |                               |         |         |         |
| Electricity sales                                    | 1                             | -       | 2       | -       |
| Services                                             | -                             | 4       | -       | -       |
| Province of Ontario                                  |                               |         |         |         |
| Decommissioning Fund excess funding <sup>1</sup>     | -                             | 113     | -       | (81)    |
| Used Fuel Fund rate of return guarantee <sup>1</sup> | -                             | 54      | -       | (238)   |
| Gross revenue charges                                | -                             | 32      | -       | 31      |
| ONFA guarantee fee                                   | -                             | 2       | -       | 2       |
| OEFC                                                 |                               |         |         |         |
| Gross revenue charges                                | -                             | 53      | -       | 49      |
| Interest expense on long-term notes                  | -                             | 43      | -       | 44      |
| Income taxes, net of investment tax credits          | -                             | 52      | -       | 114     |
| IESO                                                 |                               |         |         |         |
| Electricity related revenue                          | 1,239                         | 5       | 1,235   | 12      |
|                                                      | 1,240                         | 358     | 1,237   | (67)    |

| (millions of dollars) (unaudited)                    | Six Months Ended<br>June 30 |            |              |              |
|------------------------------------------------------|-----------------------------|------------|--------------|--------------|
|                                                      | 2016                        |            | 2015         |              |
|                                                      | Revenue                     | Expense    | Revenue      | Expense      |
| Hydro One                                            |                             |            |              |              |
| Electricity sales                                    | 3                           | -          | 8            | -            |
| Services                                             | 1                           | 9          | 1            | 2            |
| Province of Ontario                                  |                             |            |              |              |
| Decommissioning Fund excess funding <sup>1</sup>     | -                           | (64)       | -            | 219          |
| Used Fuel Fund rate of return guarantee <sup>1</sup> | -                           | (105)      | -            | 341          |
| Gross revenue charges                                | -                           | 63         | -            | 63           |
| ONFA guarantee fee                                   | -                           | 4          | -            | 4            |
| OEFC                                                 |                             |            |              |              |
| Gross revenue charges                                | -                           | 90         | -            | 88           |
| Interest expense on long-term notes                  | -                           | 85         | -            | 90           |
| Income taxes, net of investment tax credits          | -                           | 84         | -            | 185          |
| IESO                                                 |                             |            |              |              |
| Electricity related revenue                          | 2,601                       | 15         | 2,577        | 39           |
|                                                      | <b>2,605</b>                | <b>181</b> | <b>2,586</b> | <b>1,031</b> |

<sup>1</sup> The Nuclear Funds are reported on the balance sheet net of amounts recognized as due to the Province in respect of Decommissioning Fund excess funding and the Province's Used Fuel Fund rate of return guarantee. As at June 30, 2016 and December 31, 2015, the Nuclear Funds were reported net of amounts due to the Province of \$2,819 million and \$2,988 million, respectively. The details of accounting for the Nuclear Funds are described in OPG's 2015 annual MD&A under the section, *Critical Accounting Policies and Estimates*.

The receivable, available-for-sale securities, payable and long-term debt balances between OPG and its related parties are summarized below:

| (millions of dollars) (unaudited)          | June 30<br>2016 | December 31<br>2015 |
|--------------------------------------------|-----------------|---------------------|
| Receivables from related parties           |                 |                     |
| Hydro One                                  | 1               | 1                   |
| IESO                                       | 478             | 531                 |
| OEFC                                       | 5               | 9                   |
| PEC                                        | 3               | 3                   |
| Province of Ontario                        | 6               | 1                   |
| Available-for-sale securities              |                 |                     |
| Hydro One shares                           | 234             | -                   |
| Accounts payable and accrued charges       |                 |                     |
| Hydro One                                  | 1               | 1                   |
| OEFC                                       | 56              | 51                  |
| Province of Ontario                        | 9               | 20                  |
| IESO                                       | 1               | 18                  |
| Long-term debt (including current portion) |                 |                     |
| Notes payable to OEFC                      | 3,465           | 3,465               |

OPG holds interest-bearing Province of Ontario bonds in the Nuclear Funds and the OPG registered pension fund. As at June 30, 2016, the Nuclear Funds and the registered pension fund held \$1,724 million and \$322 million of interest-bearing Province of Ontario bonds, respectively. As at December 31, 2015, the Nuclear Funds and the registered pension fund held \$1,597 million and \$288 million of interest-bearing Province of Ontario bonds, respectively. OPG jointly oversees the investment management of the Nuclear Funds with the Province. The Province of Ontario bonds reported above are publicly traded securities and are measured at fair value.

In April 2016, OPG acquired nine million common shares of Hydro One at \$23.65 per share as part of a secondary share offering by the Province through a syndicate of underwriters. The acquisition was made for investment purposes to mitigate the risk of future price volatility related to OPG's future share delivery obligations to eligible employees under the collective agreements with the PWU and The Society renewed in 2015. The fair value of the shares was \$234 million as at June 30, 2016.

#### INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

The Company maintains a comprehensive system of policies, procedures, and processes that represents its framework for internal controls over financial reporting and for its disclosure controls and procedures (together referred to as ICFR). There were no changes in the Company's internal control system during the current interim period that has or is reasonably likely to have a material impact to the ICFR.

#### QUARTERLY FINANCIAL HIGHLIGHTS

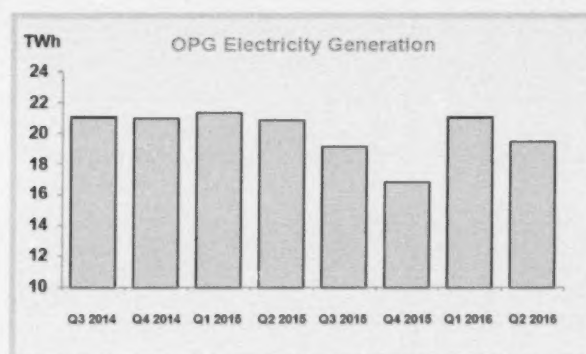
The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters.

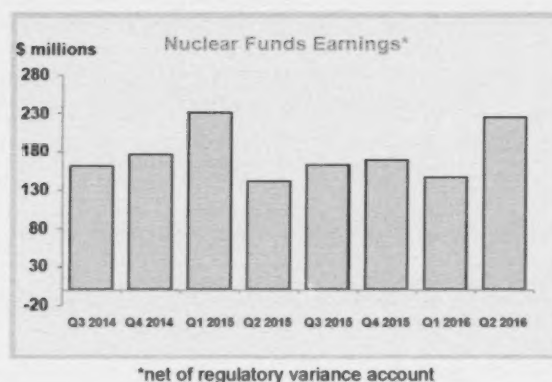
| <i>(millions of dollars - except where noted)<br/>(unaudited)</i>  | <b>June 30<br/>2016</b> | <b>March 31<br/>2016</b> | <b>December 31<br/>2015</b> | <b>September 30<br/>2015</b> |
|--------------------------------------------------------------------|-------------------------|--------------------------|-----------------------------|------------------------------|
| Revenue                                                            | <b>1,387</b>            | 1,478                    | 1,312                       | 1,426                        |
| Net income (loss) attributable to the Shareholder                  | <b>132</b>              | 123                      | (101)                       | 80                           |
| Net income attributable to non-controlling interest                | <b>3</b>                | 5                        | 1                           | 5                            |
| Net income (loss)                                                  | <b>135</b>              | 128                      | (100)                       | 85                           |
| <b>Per common share, attributable to the Shareholder (dollars)</b> | <b>\$0.51</b>           | \$0.48                   | (\$0.39)                    | \$0.31                       |

| <i>(millions of dollars - except where noted)<br/>(unaudited)</i>         | <b>June 30<br/>2015</b> | <b>March 31<br/>2015</b> | <b>December 31<br/>2014</b> | <b>September 30<br/>2014</b> |
|---------------------------------------------------------------------------|-------------------------|--------------------------|-----------------------------|------------------------------|
| Revenue                                                                   | 1,383                   | 1,355                    | 1,318                       | 1,160                        |
| Income before extraordinary item attributable to the Shareholder          | 189                     | 234                      | 86                          | 118                          |
| Income before extraordinary item attributable to non-controlling interest | 4                       | 5                        | 4                           | 1                            |
| Income before extraordinary item                                          | 193                     | 239                      | 90                          | 119                          |
| Net income attributable to the Shareholder                                | 189                     | 234                      | 86                          | 361                          |
| Net income attributable to non-controlling interest                       | 4                       | 5                        | 4                           | 1                            |
| Net income                                                                | 193                     | 239                      | 90                          | 362                          |
| <b>Per common share, attributable to the Shareholder (dollars)</b>        |                         |                          |                             |                              |
| Income before extraordinary item                                          | \$0.74                  | \$0.91                   | \$0.34                      | \$0.46                       |
| Net income                                                                | \$0.74                  | \$0.91                   | \$0.34                      | \$1.41                       |

#### Trends

OPG's quarterly results are affected by changes in grid-supplied electricity demand primarily resulting from variations in seasonal weather conditions, changes in economic conditions, the impact of small scale generation embedded in distribution networks, and the impact of conservation efforts in the province. Weather conditions affect water flows, electricity demand, and prevalence of SBG conditions. Historically, OPG's revenues are higher in the first quarter of a fiscal year as a result of winter heating demands and in the third quarter due to air conditioning and cooling demands. With respect to regulated hydroelectric operations, the financial impact of foregone production due to SBG conditions and the financial impact of differences between forecast water flows reflected in OEB-approved regulated prices and the actual water flows are offset by regulatory variance accounts authorized by the OEB. OPG's financial results are also affected by the earnings on the Nuclear Funds, net of the impact of the Bruce Lease Net Revenues Variance Account.





Additional items that affected net income in certain quarters above are described in OPG's 2015 annual MD&A under the section, *Quarterly Financial Highlights*.

#### SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income and other financial information in accordance with US GAAP, certain non-GAAP financial measures are also presented in OPG's MD&A. These non-GAAP measures do not have any standardized meaning prescribed by US GAAP and, therefore, may not be comparable to similar measures presented by other issuers. OPG utilizes these measures to make operating decisions and assess performance. Readers of the MD&A would utilize these measures in assessing the Company's financial performance from ongoing operations. The Company believes that these indicators are important since they provide additional information about OPG's performance, facilitate comparison of results over different periods, and present measures consistent with the Company's strategies to provide value to the Shareholder and to ensure availability of cost effective funding. These non-GAAP financial measures have not been presented as an alternative to net income, cash flows from operations, or any other measure in accordance with US GAAP, but as an indicator of operating performance.

The definitions of the non-GAAP financial measures are as follows:

(1) **ROE Excluding AOCI** is defined as net income attributable to the Shareholder divided by average equity attributable to the Shareholder excluding AOCI, for the period. ROE Excluding AOCI is measured over a 12-month period and is calculated as follows:

|                                                                            | Twelve Months Ended |                     |
|----------------------------------------------------------------------------|---------------------|---------------------|
|                                                                            | June 30<br>2016     | December 31<br>2015 |
| <i>(millions of dollars – except where noted) (unaudited)</i>              |                     |                     |
| ROE Excluding AOCI                                                         |                     |                     |
| Net income attributable to the Shareholder                                 | 234                 | 402                 |
| Divided by: Average equity attributable to the Shareholder, excluding AOCI | 10,362              | 10,023              |
| <b>ROE Excluding AOCI (percent)</b>                                        | <b>2.3</b>          | <b>4.0</b>          |

2) **FFO Adjusted Interest Coverage** is defined as FFO before interest divided by adjusted interest expense. FFO before interest is defined as cash flow provided by operating activities adjusted for interest paid, interest capitalized to fixed and intangible assets, and changes to non-cash working capital balances for the period. Adjusted interest expense is calculated as net interest expense plus interest income, interest capitalized to fixed and intangible assets, interest related to regulatory assets and liabilities, and interest on pension and OPEB projected benefit obligations less expected return on pension plan assets, for the period.

FFO Adjusted Interest Coverage is measured over a 12-month period and is calculated as follows:

|                                                                                                             | Twelve Months Ended |                     |
|-------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                                             | June 30<br>2016     | December 31<br>2015 |
| <i>(millions of dollars – except where noted) (unaudited)</i>                                               |                     |                     |
| FFO before interest                                                                                         |                     |                     |
| Cash flow provided by operating activities                                                                  | 1,274               | 1,465               |
| Add: Interest paid                                                                                          | 268                 | 269                 |
| Less: Interest capitalized to fixed and intangible assets                                                   | (120)               | (102)               |
| Add: Changes to non-cash working capital balances                                                           | 245                 | 100                 |
| FFO before interest                                                                                         | 1,667               | 1,732               |
| Adjusted interest expense                                                                                   |                     |                     |
| Net interest expense                                                                                        | 150                 | 180                 |
| Add: Interest income                                                                                        | 8                   | 9                   |
| Add: Interest capitalized to fixed and intangible assets                                                    | 120                 | 102                 |
| Add: Interest related to regulatory assets and liabilities                                                  | 17                  | 2                   |
| Add: Interest on pension and OPEB projected benefit obligations less expected return on pension plan assets | 49                  | 53                  |
| Adjusted interest expense                                                                                   | 344                 | 346                 |
| <b>FFO Adjusted Interest Coverage (times)</b>                                                               | <b>4.8</b>          | <b>5.0</b>          |

(3) **Nuclear Total Generating Cost per MWh** is used to measure the cost performance of OPG's nuclear generating assets. Nuclear TGC per MWh is defined as the total of OM&A expenses of the Regulated – Nuclear Generation segment (excluding Darlington Refurbishment project costs, the impact of regulatory variance and deferral accounts, and expenses ancillary to the nuclear electricity generation business), nuclear fuel expense for OPG-operated stations (excluding the impact of regulatory variance and deferral accounts), and capital expenditures of the Regulated – Nuclear Generation segment (excluding Darlington Refurbishment project costs) incurred in the period, divided by OPG's nuclear electricity generation.

|                                                                                                                          | Three Months Ended<br>June 30 |              | Six Months Ended<br>June 30 |              |
|--------------------------------------------------------------------------------------------------------------------------|-------------------------------|--------------|-----------------------------|--------------|
|                                                                                                                          | 2016                          | 2015         | 2016                        | 2015         |
| <i>(millions of dollars – except where noted) (unaudited)</i>                                                            |                               |              |                             |              |
| Nuclear TGC                                                                                                              |                               |              |                             |              |
| Regulated – Nuclear Generation OM&A expenses                                                                             | 581                           | 513          | 1,144                       | 1,039        |
| Regulated – Nuclear Generation fuel expense                                                                              | 79                            | 79           | 160                         | 157          |
| Regulated – Nuclear Generation capital expenditures                                                                      | 308                           | 263          | 557                         | 477          |
| Less: Darlington Refurbishment project capital and non-capital costs                                                     | (243)                         | (176)        | (448)                       | (332)        |
| Add: Regulated – Nuclear Generation OM&A expenses and fuel expense deferred in regulatory variance and deferral accounts | 29                            | 51           | 53                          | 108          |
| Less: Nuclear fuel expense for non OPG-operated stations                                                                 | (15)                          | (12)         | (32)                        | (29)         |
| Other adjustments                                                                                                        | (5)                           | (10)         | (7)                         | (8)          |
| Nuclear TGC                                                                                                              | 734                           | 708          | 1,427                       | 1,412        |
| Nuclear electricity generation (TWh)                                                                                     | 10.6                          | 12.3         | 22.9                        | 24.5         |
| <b>Nuclear TGC per MWh (\$/MWh) <sup>1</sup></b>                                                                         | <b>69.25</b>                  | <b>57.56</b> | <b>62.44</b>                | <b>57.52</b> |

<sup>1</sup> Amounts may not calculate due to rounding.

(4) **Gross margin** is defined as revenue less fuel expense.

Additional information about OPG, including its 2015 annual MD&A, and audited annual consolidated financial statements as at and for the year ended December 31, 2015 and notes thereto can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

For further information, please contact:

Investor Relations

416-592-6700

1-866-592-6700

[investor\\_relations@opg.com](mailto:investor_relations@opg.com)

Media Relations

416-592-4008

1-877-592-4008

[www.opg.com](http://www.opg.com)

[www.sedar.com](http://www.sedar.com)

**ONTARIO POWER GENERATION INC.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**  
**JUNE 30, 2016**

**ONTARIOPOWER**  
GENERATION

# INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

|                                                                            | Three Months Ended<br>June 30 |              | Six Months Ended<br>June 30 |              |
|----------------------------------------------------------------------------|-------------------------------|--------------|-----------------------------|--------------|
| <i>(millions of dollars except where noted)</i>                            | 2016                          | 2015         | 2016                        | 2015         |
| <b>Revenue (Note 12)</b>                                                   | <b>1,387</b>                  | <b>1,383</b> | <b>2,865</b>                | <b>2,738</b> |
| Fuel expense (Note 12)                                                     | 182                           | 180          | 354                         | 337          |
| <b>Gross margin (Note 12)</b>                                              | <b>1,205</b>                  | <b>1,203</b> | <b>2,511</b>                | <b>2,401</b> |
| <b>Expenses (Note 12)</b>                                                  |                               |              |                             |              |
| Operations, maintenance and administration                                 | 709                           | 650          | 1,395                       | 1,315        |
| Depreciation and amortization                                              | 316                           | 200          | 628                         | 396          |
| Accretion on fixed asset removal and nuclear waste management liabilities  | 232                           | 224          | 464                         | 448          |
| Earnings on nuclear fixed asset removal and nuclear waste management funds | (225)                         | (141)        | (372)                       | (372)        |
| Property taxes                                                             | 11                            | 12           | 23                          | 25           |
| Income from investments subject to significant influence                   | (9)                           | (11)         | (17)                        | (22)         |
| Restructuring                                                              | -                             | 1            | -                           | 1            |
|                                                                            | <b>1,034</b>                  | <b>935</b>   | <b>2,121</b>                | <b>1,791</b> |
| <b>Income before other gains, interest and income taxes</b>                | <b>171</b>                    | <b>268</b>   | <b>390</b>                  | <b>610</b>   |
| Other gains                                                                | (1)                           | -            | (24)                        | -            |
| <b>Income before interest and income taxes</b>                             | <b>172</b>                    | <b>268</b>   | <b>414</b>                  | <b>610</b>   |
| Net interest expense (Note 5)                                              | 31                            | 47           | 64                          | 94           |
| <b>Income before income taxes</b>                                          | <b>141</b>                    | <b>221</b>   | <b>350</b>                  | <b>516</b>   |
| Income tax expense                                                         | 6                             | 28           | 87                          | 84           |
| <b>Net income</b>                                                          | <b>135</b>                    | <b>193</b>   | <b>263</b>                  | <b>432</b>   |
| <b>Net income attributable to the Shareholder</b>                          | <b>132</b>                    | <b>189</b>   | <b>255</b>                  | <b>423</b>   |
| Net income attributable to non-controlling interest                        | 3                             | 4            | 8                           | 9            |
| <b>Basic and diluted net income per common share (dollars)</b>             | <b>0.51</b>                   | <b>0.74</b>  | <b>0.99</b>                 | <b>1.65</b>  |
| <b>Common shares outstanding (millions)</b>                                | <b>256.3</b>                  | <b>256.3</b> | <b>256.3</b>                | <b>256.3</b> |

See accompanying notes to the interim consolidated financial statements

# INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| (millions of dollars)                                                                                    | Three Months Ended<br>June 30 |            | Six Months Ended<br>June 30 |            |
|----------------------------------------------------------------------------------------------------------|-------------------------------|------------|-----------------------------|------------|
|                                                                                                          | 2016                          | 2015       | 2016                        | 2015       |
| <b>Net income</b>                                                                                        | <b>135</b>                    | <b>193</b> | <b>263</b>                  | <b>432</b> |
| <b>Other comprehensive income, net of income taxes (Note 7)</b>                                          |                               |            |                             |            |
| Net gain on derivatives designated as cash flow hedges                                                   | -                             | -          | -                           | 1          |
| Reclassification to income of losses from cash flow hedges <sup>1</sup>                                  | <b>6</b>                      | <b>4</b>   | <b>10</b>                   | <b>7</b>   |
| Reclassification to income of amounts related to pension and other post-employment benefits <sup>2</sup> | <b>3</b>                      | <b>4</b>   | <b>6</b>                    | <b>9</b>   |
| Unrealized gain on available-for-sale securities <sup>3</sup>                                            | <b>15</b>                     | -          | <b>15</b>                   | -          |
| Other comprehensive income for the period                                                                | <b>24</b>                     | <b>8</b>   | <b>31</b>                   | <b>17</b>  |
| <b>Comprehensive income</b>                                                                              | <b>159</b>                    | <b>201</b> | <b>294</b>                  | <b>449</b> |
| <b>Comprehensive income attributable to the Shareholder</b>                                              | <b>156</b>                    | <b>197</b> | <b>286</b>                  | <b>440</b> |
| Comprehensive income attributable to non-controlling interest                                            | <b>3</b>                      | <b>4</b>   | <b>8</b>                    | <b>9</b>   |

<sup>1</sup> Net of income tax expense of nil for the three months ended June 30, 2016 and 2015. Net of income tax expense of \$1 million for the six months ended June 30, 2016 and 2015.

<sup>2</sup> Net of income tax expense of \$1 million and \$2 million for the three months ended June 30, 2016 and 2015, respectively. Net of income tax expense of \$2 million and \$3 million for the six months ended June 30, 2016 and 2015, respectively.

<sup>3</sup> Net of income tax expense of \$5 million and nil for the three months ended June 30, 2016 and 2015, respectively. Net of income tax expense of \$5 million and nil for the six months ended June 30, 2016 and 2015, respectively.

See accompanying notes to the interim consolidated financial statements

# INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| Six Months Ended June 30<br>(millions of dollars)                                                                 | 2016         | 2015         |
|-------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| <b>Operating activities</b>                                                                                       |              |              |
| Net income                                                                                                        | 263          | 432          |
| Adjust for non-cash items:                                                                                        |              |              |
| Depreciation and amortization                                                                                     | 628          | 396          |
| Accretion on fixed asset removal and nuclear waste management liabilities                                         | 464          | 448          |
| Earnings on nuclear fixed asset removal and nuclear waste management funds                                        | (372)        | (372)        |
| Pension and other post-employment benefit costs (Note 8)                                                          | 233          | 242          |
| Deferred income taxes                                                                                             | (11)         | 20           |
| Mark-to-market on derivative instruments                                                                          | 2            | 52           |
| Provision for used nuclear fuel and low and intermediate level waste                                              | 62           | 58           |
| Regulatory assets and liabilities                                                                                 | (68)         | (55)         |
| Provision for materials and supplies                                                                              | 9            | 14           |
| Other gains (Note 3)                                                                                              | (24)         | -            |
| Other                                                                                                             | (16)         | (22)         |
|                                                                                                                   | 1,170        | 1,213        |
| Contributions to nuclear fixed asset removal and nuclear waste management funds                                   | (74)         | (71)         |
| Expenditures on fixed asset removal and nuclear waste management                                                  | (125)        | (106)        |
| Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management                         | 30           | 44           |
| Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans | (237)        | (243)        |
| Expenditures on restructuring                                                                                     | (3)          | (8)          |
| Distributions received from investments subject to significant influence                                          | 30           | 31           |
| Net changes to other long-term assets and liabilities                                                             | 16           | (7)          |
| Net changes in non-cash working capital balances (Note 13)                                                        | (93)         | 52           |
| <b>Cash flow provided by operating activities</b>                                                                 | <b>714</b>   | <b>905</b>   |
| <b>Investing activities</b>                                                                                       |              |              |
| Purchase of available-for-sale securities (Note 2)                                                                | (213)        | -            |
| Proceeds from deposit note (Note 4)                                                                               | 35           | -            |
| Investment in property, plant and equipment and intangible assets                                                 | (718)        | (628)        |
| <b>Cash flow used in investing activities</b>                                                                     | <b>(896)</b> | <b>(628)</b> |
| <b>Financing activities</b>                                                                                       |              |              |
| Repayment of long-term debt                                                                                       | (2)          | (302)        |
| Distribution to non-controlling interest                                                                          | (7)          | (10)         |
| Issuance of short-term notes                                                                                      | 1,985        | 1,335        |
| Repayment of short-term notes                                                                                     | (1,963)      | (1,335)      |
| <b>Cash flow provided by (used in) financing activities</b>                                                       | <b>13</b>    | <b>(312)</b> |
| <b>Net decrease in cash and cash equivalents</b>                                                                  | <b>(169)</b> | <b>(35)</b>  |
| <b>Cash and cash equivalents, beginning of period</b>                                                             | <b>464</b>   | <b>610</b>   |
| <b>Cash and cash equivalents, end of period</b>                                                                   | <b>295</b>   | <b>575</b>   |

See accompanying notes to the interim consolidated financial statements

# INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| As at<br>(millions of dollars)                                 | June 30<br>2016 | December 31<br>2015 |
|----------------------------------------------------------------|-----------------|---------------------|
| <b>Assets</b>                                                  |                 |                     |
| <b>Current assets</b>                                          |                 |                     |
| Cash and cash equivalents                                      | 295             | 464                 |
| Available-for-sale securities (Note 2)                         | 234             | -                   |
| Receivables from related parties                               | 493             | 545                 |
| Nuclear fixed asset removal and nuclear waste management funds | 18              | 15                  |
| Fuel inventory                                                 | 333             | 344                 |
| Materials and supplies                                         | 95              | 96                  |
| Regulatory assets (Note 3)                                     | 314             | 628                 |
| Other current assets (Note 4)                                  | 336             | 298                 |
|                                                                | <b>2,118</b>    | <b>2,390</b>        |
| <b>Property, plant and equipment</b>                           | <b>30,186</b>   | <b>29,469</b>       |
| Less: accumulated depreciation                                 | <b>9,168</b>    | <b>8,874</b>        |
|                                                                | <b>21,018</b>   | <b>20,595</b>       |
| <b>Intangible assets</b>                                       | <b>491</b>      | <b>476</b>          |
| Less: accumulated amortization                                 | <b>391</b>      | <b>378</b>          |
|                                                                | <b>100</b>      | <b>98</b>           |
| <b>Other assets</b>                                            |                 |                     |
| Nuclear fixed asset removal and nuclear waste management funds | <b>15,548</b>   | 15,121              |
| Long-term materials and supplies                               | <b>351</b>      | 337                 |
| Regulatory assets (Note 3)                                     | <b>5,384</b>    | 5,240               |
| Investments subject to significant influence (Note 14)         | <b>323</b>      | 336                 |
| Other long-term assets (Note 4)                                | <b>58</b>       | 133                 |
|                                                                | <b>21,664</b>   | <b>21,167</b>       |
|                                                                | <b>44,900</b>   | <b>44,250</b>       |

See accompanying notes to the interim consolidated financial statements

# INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| As at<br>(millions of dollars)                                        | June 30<br>2016 | December 31<br>2015 |
|-----------------------------------------------------------------------|-----------------|---------------------|
| <b>Liabilities</b>                                                    |                 |                     |
| <b>Current liabilities</b>                                            |                 |                     |
| Accounts payable and accrued charges                                  | 1,043           | 1,199               |
| Deferred revenue due within one year                                  | 12              | 12                  |
| Short-term debt (Note 5)                                              | 247             | 225                 |
| Long-term debt due within one year (Note 4)                           | 483             | 273                 |
| Regulatory liabilities (Note 3)                                       | 13              | 26                  |
| Income taxes payable                                                  | 65              | 66                  |
|                                                                       | <b>1,863</b>    | <b>1,801</b>        |
| <b>Long-term debt (Note 4)</b>                                        | <b>4,974</b>    | <b>5,186</b>        |
| <b>Other liabilities</b>                                              |                 |                     |
| Fixed asset removal and nuclear waste management liabilities (Note 6) | 20,621          | 20,169              |
| Pension liabilities                                                   | 2,504           | 2,597               |
| Other post-employment benefit liabilities                             | 3,138           | 3,085               |
| Long-term accounts payable and accrued charges                        | 201             | 207                 |
| Deferred revenue                                                      | 272             | 246                 |
| Deferred income taxes                                                 | 857             | 880                 |
| Regulatory liabilities (Note 3)                                       | 138             | 34                  |
|                                                                       | <b>27,731</b>   | <b>27,218</b>       |
| <b>Equity</b>                                                         |                 |                     |
| Common shares <sup>1</sup>                                            | 5,126           | 5,126               |
| Retained earnings                                                     | 5,353           | 5,098               |
| Accumulated other comprehensive loss (Note 7)                         | (288)           | (319)               |
| <b>Equity attributable to the Shareholder</b>                         | <b>10,191</b>   | <b>9,905</b>        |
| Equity attributable to non-controlling interest                       | 141             | 140                 |
| <b>Total equity</b>                                                   | <b>10,332</b>   | <b>10,045</b>       |
|                                                                       | <b>44,900</b>   | <b>44,250</b>       |

<sup>1</sup> 256,300,010 common shares outstanding at a stated value of \$5,126 million as at June 30, 2016 and December 31, 2015.

Commitments and Contingencies (Notes 4, 10 and 11)

See accompanying notes to the interim consolidated financial statements

## INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

| Six Months Ended June 30<br><i>(millions of dollars)</i>         | 2016          | 2015  |
|------------------------------------------------------------------|---------------|-------|
| <b>Common shares</b>                                             | <b>5,126</b>  | 5,126 |
| <b>Retained earnings</b>                                         |               |       |
| Balance at beginning of period                                   | 5,098         | 4,696 |
| Net income attributable to the Shareholder                       | 255           | 423   |
| Balance at end of period                                         | 5,353         | 5,119 |
| <b>Accumulated other comprehensive loss, net of income taxes</b> |               |       |
| Balance at beginning of period                                   | (319)         | (496) |
| Other comprehensive income                                       | 31            | 17    |
| Balance at end of period                                         | (288)         | (479) |
| <b>Equity attributable to the Shareholder</b>                    | <b>10,191</b> | 9,766 |
| <b>Equity attributable to non-controlling interest</b>           |               |       |
| Balance at beginning of period                                   | 140           | 141   |
| Distribution to non-controlling interest                         | (7)           | (10)  |
| Net income attributable to non-controlling interest              | 8             | 9     |
| Balance at end of period                                         | 141           | 140   |
| <b>Total equity</b>                                              | <b>10,332</b> | 9,906 |

*See accompanying notes to the interim consolidated financial statements*

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2016 and 2015

## 1. BASIS OF PRESENTATION

These interim consolidated financial statements for the three and six months ended June 30, 2016 and 2015 include the accounts of Ontario Power Generation Inc. (OPG or Company) and its subsidiaries. The Company consolidates its interest in entities over which it is able to exercise control and attributes the results to its sole shareholder, the Province of Ontario (Province). Interests owned by other parties are reflected as non-controlling interest. These interim consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States (US) Securities and Exchange Commission for interim financial statements. These interim consolidated financial statements do not contain all of the disclosures required by US GAAP for annual financial statements. Accordingly, they should be read in conjunction with the annual consolidated financial statements of the Company as at and for the year ended December 31, 2015. All dollar amounts are presented in Canadian dollars.

Certain of the 2015 comparative amounts have been reclassified from financial statements previously presented to conform to the 2016 interim consolidated financial statement presentation.

### Use of Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Management evaluates the Company's estimates on an ongoing basis based on historical experience, current conditions and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in the period incurred. Significant estimates are included in the determination of pension and other post-employment benefits (OPEB) liabilities, asset retirement obligations, income taxes (including deferred income taxes), contingencies, regulatory assets and liabilities, valuation of derivative instruments, depreciation and amortization, and inventories. Actual results may differ significantly from these estimates.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

### Classification of Hydro One Limited Shares

During 2015, OPG entered into renewed three-year collective bargaining agreements with the Power Workers' Union (PWU) and The Society of Energy Professionals (The Society). Changes to the respective collective agreements included increases to employee pension plan contributions and provisions for qualifying existing employees represented by the PWU and The Society to annually receive common shares of Hydro One Limited (Hydro One) for up to 15 years starting in the third year of the respective agreements. In April 2016, OPG acquired nine million common shares of Hydro One at \$23.65 per share as part of a secondary share offering by the Province through a syndicate of underwriters. The acquisition was made for investment purposes to mitigate the risk of future price volatility related to OPG's future share delivery obligations under the collective agreements.

OPG classified the Hydro One shares as available-for-sale (AFS) securities. AFS securities are measured at fair value with unrealized gains and losses due to changes in fair value recognized in other comprehensive income. Realized gains and losses are included in net income when the shares are sold or awarded. Related transaction

costs are expensed as incurred, and dividend income is included in net income in the period dividends are declared. The shares were initially measured at the transaction price.

As at June 30, 2016, unrealized gains recognized in accumulated other comprehensive loss (AOCL) related to the changes in the fair value of the Hydro One shares were \$15 million, net of income taxes. The fair value of the shares was \$234 million as at June 30, 2016. Refer to Notes 7 and 10 for the required disclosures related to the AFS securities.

#### Recent Accounting Pronouncements

##### Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. Under the new guidance, investments measured at net asset value (NAV), which have been elected under the guidance as a practical expedient for fair value, are excluded from the fair value hierarchy. Removing investments measured using the practical expedient from the fair value hierarchy is intended to eliminate the diversity in practice that currently exists with respect to the categorization of these investments. The only criterion for categorizing investments in the fair value hierarchy is the observability of the inputs. OPG has adopted the updates to Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement* beginning in its interim consolidated financial statements as at and for the three months ended March 31, 2016. The changes in disclosures required under this update are reflected in Note 10.

##### Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. Under the updated guidance, entities will have to measure equity investments at fair value and recognize any changes in fair value in net income. The update will be effective for OPG's 2018 fiscal year, including interim periods. As a result of this update, effective January 1, 2018, any Hydro One shares held by OPG will no longer be classified as AFS and any unrealized gains and losses related to the shares will be recognized in net income instead of other comprehensive income. Any unrealized gains and losses reported in OPG's AOCL for AFS securities as of the end of 2017 will be reclassified to retained earnings on January 1, 2018.

### 3. REGULATORY ASSETS AND LIABILITIES

The regulatory assets and liabilities recorded as at June 30, 2016 and December 31, 2015 are as follows:

| <i>(millions of dollars)</i>                                                    | June 30<br>2016 | December 31<br>2015 |
|---------------------------------------------------------------------------------|-----------------|---------------------|
| <b>Regulatory assets</b>                                                        |                 |                     |
| <i>Variance and deferral accounts as authorized by the Ontario Energy Board</i> |                 |                     |
| Pension and OPEB Cost Variance Account                                          | 790             | 865                 |
| Pension & OPEB Cash Versus Accrual Differential Deferral Account (Note 8)       | 378             | 315                 |
| Hydroelectric Surplus Baseload Generation Variance Account                      | 192             | 114                 |
| Nuclear Liability Deferral Account                                              | 95              | 190                 |
| Bruce Lease Net Revenues Variance Account                                       | 89              | 95                  |
| Nuclear Deferral and Variance Over/Under Recovery Variance Account              | 77              | 82                  |
| Other variance and deferral accounts                                            | 14              | 53                  |
|                                                                                 | <b>1,635</b>    | <b>1,714</b>        |
| Pension and OPEB Regulatory Asset (Note 8)                                      | 3,262           | 3,362               |
| Deferred Income Taxes                                                           | 801             | 792                 |
| <b>Total regulatory assets</b>                                                  | <b>5,698</b>    | <b>5,868</b>        |
| Less: current portion                                                           | 314             | 628                 |
| <b>Non-current regulatory assets</b>                                            | <b>5,384</b>    | <b>5,240</b>        |
| <b>Regulatory liabilities</b>                                                   |                 |                     |
| <i>Variance and deferral accounts as authorized by the Ontario Energy Board</i> |                 |                     |
| Hydroelectric Water Conditions Variance Account                                 | 76              | 23                  |
| Other variance and deferral accounts                                            | 75              | 37                  |
| <b>Total regulatory liabilities</b>                                             | <b>151</b>      | <b>60</b>           |
| Less: current portion                                                           | 13              | 26                  |
| <b>Non-current regulatory liabilities</b>                                       | <b>138</b>      | <b>34</b>           |

In December 2015, as required by the Ontario Energy Board's (OEB) previous decisions and orders, OPG applied to the OEB for an accounting order to establish a new deferral account to record the revenue requirement impact on the prescribed nuclear facilities of changes to the nuclear fixed asset removal and nuclear waste management liabilities and depreciation expense arising from the changes in the estimated useful lives of the Company's nuclear stations, for accounting purposes.

In March 2016, the OEB issued its final decision and order establishing the requested account, the Impact Resulting from Changes in Station-End-of-Life Dates Deferral Account, effective January 1, 2016. As at June 30, 2016, OPG recognized a regulatory liability of \$38 million related to the balance in the deferral account. Details of the changes to the estimated useful lives of OPG's nuclear generating stations that gave rise to this deferral account are found in Note 3 to the annual consolidated financial statements of the Company as at and for the year ended December 31, 2015.

In January 2016, OEB issued its decision on OPG's December 2014 motion that requested the OEB to review and vary parts of its November 2014 decision, including the disallowed Niagara Tunnel project capital costs. In its January 2016 decision, the OEB reversed a portion of the November 2014 Niagara Tunnel capital cost disallowance and established a new variance account, the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account, to record the revenue requirement impact of the reversed disallowance effective November 1, 2014. The November 2014 disallowance resulted in a write off of capital costs in the fourth quarter of 2014. To recognize the expected future recovery of the reversed portion of the disallowance, OPG recorded an increase to property, plant and equipment and a corresponding gain of \$22 million during the first quarter of 2016 in accordance with ASC Topic

980, *Regulated Operations*. As at June 30, 2016, OPG also recorded a regulatory asset of \$2 million related to the balance in the variance account.

As at June 30, 2016 and December 31, 2015, regulatory assets for other variance and deferral accounts included amounts for the Pension & OPEB Cash Payment Variance Account, the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, the Capacity Refurbishment Variance Account, the Pickering Life Extension Depreciation Variance Account and the Nuclear Development Variance Account. As at June 30, 2016 and December 31, 2015, regulatory liabilities for other variance and deferral accounts included the Ancillary Services Net Revenue Variance Account, the Income and Other Taxes Variance Account and the Hydroelectric Incentive Mechanism Variance Account.

As at June 30, 2016, regulatory assets for other variance and deferral accounts also included the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account and regulatory liabilities for other variance and deferral accounts also included the Impact Resulting from Changes in Station-End-of-Life Dates Deferral Account.

#### 4. LONG-TERM DEBT

Long-term debt consists of the following:

|                                                                | June 30<br>2016 | December 31<br>2015 |
|----------------------------------------------------------------|-----------------|---------------------|
| <i>(millions of dollars)</i>                                   |                 |                     |
| Notes payable to the Ontario Electricity Financial Corporation | 3,465           | 3,465               |
| UMH Energy Partnership                                         | 185             | 187                 |
| PSS Generating Station Limited Partnership                     | 245             | 245                 |
| Lower Mattagami Energy Limited Partnership                     | 1,575           | 1,575               |
|                                                                | 5,470           | 5,472               |
| Less: bond issuance fees                                       | (13)            | (13)                |
| Less: due within one year                                      | (483)           | (273)               |
| Long-term debt                                                 | 4,974           | 5,186               |

In June 2016, OPG entered into a \$700 million general corporate credit facility agreement with the Ontario Electricity Financial Corporation, which expires on December 31, 2017.

In the fourth quarter of 2015, PSS Generating Station Limited Partnership (PSS or the Partnership), a subsidiary of OPG, issued long-term debt totalling \$245 million in support of the Peter Sutherland Sr. GS project. The majority of the debt proceeds, totalling \$180 million, were invested in a structured deposit note with staggered maturity dates ranging from January 2016 to April 2017. As at June 30, 2016, \$145 million is reported as Other current assets on the consolidated balance sheets, based on the terms of the deposit note. As at December 31, 2015, \$110 million was reported as Other current assets and \$70 million as Other long-term assets.

As at June 30, 2016, PSS was classified as a variable interest entity because it did not meet the criteria of having sufficient equity at risk to finance its activities. Since OPG is the primary beneficiary of PSS, it continues to consolidate the Partnership.

#### 5. SHORT-TERM DEBT AND NET INTEREST EXPENSE

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches. In the second quarter of 2016, OPG renewed and extended both tranches to May 2021. As at June 30, 2016, there were no outstanding borrowings under the bank credit facility.

As at June 30, 2016, the Lower Mattagami Energy Limited Partnership (LME) maintained a \$500 million bank credit facility to support the funding requirements for the Lower Mattagami River project, including support for LME's commercial paper program. The facility consists of a \$300 million tranche maturing in August 2020 and a \$200 million tranche maturing in August 2016. As at June 30, 2016, there was external commercial paper of \$245 million outstanding under LME's commercial paper program (December 31, 2015 – \$225 million). There were no amounts outstanding under LME's bank credit facility as at June 30, 2016.

The following table summarizes net interest expense:

| (millions of dollars)                                                       | Three Months Ended<br>June 30 |      | Six Months Ended<br>June 30 |      |
|-----------------------------------------------------------------------------|-------------------------------|------|-----------------------------|------|
|                                                                             | 2016                          | 2015 | 2016                        | 2015 |
| Interest on long-term debt                                                  | 72                            | 70   | 144                         | 142  |
| Interest on short-term debt                                                 | 1                             | 1    | 2                           | 2    |
| Interest income                                                             | (2)                           | (2)  | (4)                         | (5)  |
| Interest capitalized to property, plant and equipment and intangible assets | (34)                          | (24) | (65)                        | (47) |
| Interest related to regulatory assets and liabilities <sup>1</sup>          | (6)                           | 2    | (13)                        | 2    |
| Net interest expense                                                        | 31                            | 47   | 64                          | 94   |

<sup>1</sup> Includes interest to recognize the cost of financing related to regulatory variance and deferral accounts, as authorized by the OEB, and interest deferred in the Capacity Refurbishment Variance Account, the Bruce Lease Net Revenues Variance Account, the Impact Resulting from Changes in Station-End-of-Life Dates Deferral Account, and the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account.

## 6. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

The liabilities for fixed asset removal and nuclear waste management on a present value basis as at June 30, 2016 and December 31, 2015 consist of the following:

| (millions of dollars)                                                                 | June 30<br>2016 | December 31<br>2015 |
|---------------------------------------------------------------------------------------|-----------------|---------------------|
| Liability for nuclear used fuel management                                            | 13,108          | 12,793              |
| Liability for nuclear decommissioning and low and intermediate level waste management | 7,130           | 6,999               |
| Liability for non-nuclear fixed asset removal                                         | 383             | 377                 |
| Fixed asset removal and nuclear waste management liabilities                          | 20,621          | 20,169              |

## 7. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The changes in the balance of each component of AOCL, net of income taxes, are as follows:

| (millions of dollars)                                        | Six Months Ended June 30, 2016                           |                                  |                                               |                    |
|--------------------------------------------------------------|----------------------------------------------------------|----------------------------------|-----------------------------------------------|--------------------|
|                                                              | Unrealized<br>Losses on Cash<br>Flow Hedges <sup>1</sup> | Pension and<br>OPEB <sup>1</sup> | Available-for-sale<br>Securities <sup>1</sup> | Total <sup>1</sup> |
| AOCL, beginning of period                                    | (106)                                                    | (213)                            | -                                             | (319)              |
| Unrealized gain on available-for-sale securities (Note 2)    | -                                                        | -                                | 15                                            | 15                 |
| Amounts reclassified from AOCL                               | 10                                                       | 6                                | -                                             | 16                 |
| Other comprehensive income for the period                    | 10                                                       | 6                                | 15                                            | 31                 |
| Accumulated other comprehensive (loss) income, end of period | (96)                                                     | (207)                            | 15                                            | (288)              |

<sup>1</sup> All amounts are net of income taxes.

| (millions of dollars)                     | Six Months Ended June 30, 2015                           |                                  |                    |
|-------------------------------------------|----------------------------------------------------------|----------------------------------|--------------------|
|                                           | Unrealized<br>Losses on Cash<br>Flow Hedges <sup>1</sup> | Pension and<br>OPEB <sup>1</sup> | Total <sup>1</sup> |
| AOCL, beginning of period                 | (117)                                                    | (379)                            | (496)              |
| Net gain on cash flow hedges              | 1                                                        | -                                | 1                  |
| Amounts reclassified from AOCL            | 7                                                        | 9                                | 16                 |
| Other comprehensive income for the period | 8                                                        | 9                                | 17                 |
| AOCL, end of period                       | (109)                                                    | (370)                            | (479)              |

<sup>1</sup> All amounts are net of income taxes.

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the three and six months ended June 30, 2016 are as follows:

| (millions of dollars)                                                        | Amount Reclassified from AOCL          |                                      | Statement of Income Line Item         |
|------------------------------------------------------------------------------|----------------------------------------|--------------------------------------|---------------------------------------|
|                                                                              | Three Months<br>Ended<br>June 30, 2016 | Six Months<br>Ended<br>June 30, 2016 |                                       |
| Amortization of losses from cash flow hedges<br>Losses                       | 6                                      | 10                                   | Net interest expense and fuel expense |
| Amortization of amounts related to pension<br>and OPEB<br>Net actuarial loss | 3                                      | 6                                    | See (1) below                         |
| Total reclassifications for the period                                       | 9                                      | 16                                   |                                       |

<sup>1</sup> These AOCL components are included in the computation of pension and OPEB costs (see Note 8 for additional details).

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the three and six months ended June 30, 2015 are as follows:

| <i>(millions of dollars)</i>                        | Amount Reclassified from AOCL       |                  | Statement of Income Line Item         |
|-----------------------------------------------------|-------------------------------------|------------------|---------------------------------------|
|                                                     | Three Months Ended<br>June 30, 2015 | Six Months Ended |                                       |
| Amortization of losses from cash flow hedges        |                                     |                  |                                       |
| Losses                                              | 4                                   | 7                | Net interest expense and fuel expense |
| Amortization of amounts related to pension and OPEB |                                     |                  |                                       |
| Net actuarial loss                                  | 4                                   | 9                | See (1) below                         |
| Total reclassifications for the period              | 8                                   | 16               |                                       |

<sup>1</sup> These AOCL components are included in the computation of pension and OPEB costs (see Note 8 for additional details).

## 8. PENSION AND OPEB

OPG's pension and OPEB costs for the three months ended June 30, 2016 and 2015 are as follows:

| <i>(millions of dollars)</i>                    | Registered Pension Plans |       | Supplementary Pension Plans |      | OPEB |      |
|-------------------------------------------------|--------------------------|-------|-----------------------------|------|------|------|
|                                                 | 2016                     | 2015  | 2016                        | 2015 | 2016 | 2015 |
| <i>Components of Cost Recognized</i>            |                          |       |                             |      |      |      |
| Current service costs                           | 69                       | 80    | 1                           | 2    | 17   | 18   |
| Interest on projected benefit obligation        | 159                      | 158   | 3                           | 3    | 33   | 32   |
| Expected return on plan assets, net of expenses | (184)                    | (180) | -                           | -    | -    | -    |
| Amortization of net actuarial loss <sup>1</sup> | 48                       | 73    | 1                           | 2    | 5    | 6    |
| Cost recognized <sup>2</sup>                    | 92                       | 131   | 5                           | 7    | 55   | 56   |

<sup>1</sup> The amortization of net actuarial loss is recognized as an increase to other comprehensive income. This increase for the three months ended June 30, 2016 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of \$50 million (three months ended June 30, 2015 – \$75 million).

<sup>2</sup> These pension and OPEB costs for the three months ended June 30, 2016 exclude the reduction of costs resulting from the recognition of additions to the regulatory assets for the Pension & OPEB Cash Versus Accrual Differential Deferral Account and the Pension & OPEB Cash Payment Variance Account of \$29 million and \$7 million, respectively (three months ended June 30, 2015 – \$66 million and \$6 million, respectively).

OPG's pension and OPEB costs for the six months ended June 30, 2016 and 2015 are as follows:

| (millions of dollars)                           | Registered Pension Plans |            | Supplementary Pension Plans |           | OPEB       |            |
|-------------------------------------------------|--------------------------|------------|-----------------------------|-----------|------------|------------|
|                                                 | 2016                     | 2015       | 2016                        | 2015      | 2016       | 2015       |
| <i>Components of Cost Recognized</i>            |                          |            |                             |           |            |            |
| Current service costs                           | 138                      | 160        | 3                           | 4         | 34         | 36         |
| Interest on projected benefit obligation        | 317                      | 315        | 6                           | 6         | 66         | 64         |
| Expected return on plan assets, net of expenses | (367)                    | (359)      | -                           | -         | -          | -          |
| Amortization of net actuarial loss <sup>1</sup> | 96                       | 146        | 2                           | 3         | 10         | 13         |
| <b>Cost recognized <sup>2</sup></b>             | <b>184</b>               | <b>262</b> | <b>11</b>                   | <b>13</b> | <b>110</b> | <b>113</b> |

<sup>1</sup> The amortization of net actuarial loss is recognized as an increase to other comprehensive income. This increase for the six months ended June 30, 2016 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of \$100 million (six months ended June 30, 2015 – \$150 million).

<sup>2</sup> These pension and OPEB costs for the six months ended June 30, 2016 exclude the reduction of costs resulting from the recognition of additions to the regulatory assets for the Pension & OPEB Cash Versus Accrual Differential Deferral Account and Pension & OPEB Cash Payment Variance Account of \$63 million and \$9 million, respectively (six months ended June 30, 2015 – \$133 million and \$13 million, respectively).

## 9. RISK MANAGEMENT AND DERIVATIVES

OPG is exposed to risks related to changes in market interest rates on debt expected to be issued in the future and movements in foreign currency that affect the Company's assets, liabilities, and forecasted transactions. Select derivative instruments are used to manage such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk for OPG arises with the need to refinance existing debt and/or undertake new financing. The management of these risks includes using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are primarily denominated in, or tied to, US dollars. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when appropriate, in order to manage the Company's exposure to foreign currency movements.

The majority of OPG's revenues are derived from sales through the Independent Electricity System Operator (IESO) administered spot market. Market participants in the IESO spot market provide collateral in accordance with the IESO prudential support requirements to cover funds that they might owe to the market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure relates to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at June 30, 2016 was less than \$1 million. OPG's fair value derivatives totalled a net liability of \$20 million as at June 30, 2016 (December 31, 2015 – \$2 million).

Existing net losses of \$21 million related to unrealized gains and losses on cash flow hedges deferred in AOCL as at June 30, 2016 are expected to be reclassified to net income within the next 12 months.

## 10. FAIR VALUE MEASUREMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices at the interim consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in Level 1 of the fair value hierarchy and are comprised primarily of equity investments and fund investments. The fair value hierarchy groups financial instruments into three levels, based on the significance of inputs used in measuring the fair value of the assets and liabilities.

For financial instruments that do not have quoted market prices directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimate of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the dates of the interim consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to measure an instrument at fair value are observable, the instrument is included in Level 2 of the fair value hierarchy.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3 of the fair value hierarchy. Specific valuation techniques are used to value these instruments. Significant Level 3 inputs include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

Certain alternative investments are measured at fair value by their investment managers using NAV. Investments measured at NAV as a practical expedient for determining their fair value are excluded from the fair value hierarchy.

The following is a summary of OPG's financial instruments and their fair value as at June 30, 2016 and December 31, 2015.

| (millions of dollars)                                    | Fair Value |         | Carrying Value <sup>†</sup> |         | Balance Sheet Line Item                                        |
|----------------------------------------------------------|------------|---------|-----------------------------|---------|----------------------------------------------------------------|
|                                                          | 2016       | 2015    | 2016                        | 2015    |                                                                |
| Nuclear Funds<br>(includes current portion) <sup>2</sup> | 15,566     | 15,136  | 15,566                      | 15,136  | Nuclear fixed asset removal and nuclear waste management funds |
| Investment in Hydro One shares                           | 234        | -       | 234                         | -       | Available-for-sale securities                                  |
| Payable related to cash flow hedges                      | (52)       | (56)    | (52)                        | (56)    | Long-term accounts payable and accrued charges                 |
| Long-term debt (includes current portion)                | (6,132)    | (5,978) | (5,457)                     | (5,459) | Long-term debt                                                 |
| Other financial instruments                              | (13)       | 6       | (13)                        | 6       | Various                                                        |

<sup>†</sup> The carrying values of other financial instruments included in cash and cash equivalents, receivables from related parties, other short-term assets, short-term debt, and accounts payable and accrued charges approximate their fair value due to the immediate or short-term maturity of these financial instruments.

<sup>2</sup> The Nuclear Funds are comprised of the Decommissioning Segregated Fund (Decommissioning Fund) and the Used Fuel Segregated Fund (Used Fuel Fund).

The fair value of long-term debt instruments is determined based on a conventional pricing model, which is a function of future cash flows, the current market yield curve and term to maturity. These inputs are considered to be Level 2 inputs.

The following tables present financial assets and financial liabilities measured at fair value in accordance with the fair value hierarchy as at June 30, 2016 and December 31, 2015:

|                                                                           | June 30, 2016 |         |         |         |
|---------------------------------------------------------------------------|---------------|---------|---------|---------|
| (millions of dollars)                                                     | Level 1       | Level 2 | Level 3 | Total   |
| <b>Assets</b>                                                             |               |         |         |         |
| <i>Used Fuel Fund</i>                                                     |               |         |         |         |
| Investments measured at fair value, excluding investments measured at NAV | 4,904         | 4,625   | -       | 9,529   |
| Investments measured at NAV <sup>1</sup>                                  |               |         |         | 934     |
|                                                                           |               |         |         | 10,463  |
| Due to Province                                                           |               |         |         | (1,598) |
| Used Fuel Fund, net                                                       |               |         |         | 8,865   |
| <i>Decommissioning Fund</i>                                               |               |         |         |         |
| Investments measured at fair value, excluding investments measured at NAV | 3,726         | 3,418   | -       | 7,144   |
| Investments measured at NAV <sup>1</sup>                                  |               |         |         | 778     |
|                                                                           |               |         |         | 7,922   |
| Due to Province                                                           |               |         |         | (1,221) |
| Decommissioning Fund, net                                                 |               |         |         | 6,701   |
| Investment in available-for-sale securities                               | 234           | -       | -       | 234     |
| Other financial assets                                                    | 10            | 2       | 9       | 21      |
| <b>Liabilities</b>                                                        |               |         |         |         |
| Other financial liabilities                                               | (27)          | (7)     | -       | (34)    |

<sup>1</sup> Investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to amounts presented on the interim consolidated balance sheets.

|                                                                           | December 31, 2015 |         |         |         |
|---------------------------------------------------------------------------|-------------------|---------|---------|---------|
| (millions of dollars)                                                     | Level 1           | Level 2 | Level 3 | Total   |
| <b>Assets</b>                                                             |                   |         |         |         |
| <i>Used Fuel Fund</i>                                                     |                   |         |         |         |
| Investments measured at fair value, excluding investments measured at NAV | 5,022             | 4,385   | -       | 9,407   |
| Investments measured at NAV <sup>1</sup>                                  |                   |         |         | 883     |
|                                                                           |                   |         |         | 10,290  |
| Due to Province                                                           |                   |         |         | (1,703) |
| Used Fuel Fund, net                                                       |                   |         |         | 8,587   |
| <i>Decommissioning Fund</i>                                               |                   |         |         |         |
| Investments measured at fair value, excluding investments measured at NAV | 3,828             | 3,269   | -       | 7,097   |
| Investments measured at NAV <sup>1</sup>                                  |                   |         |         | 737     |
|                                                                           |                   |         |         | 7,834   |
| Due to Province                                                           |                   |         |         | (1,285) |
| Decommissioning Fund, net                                                 |                   |         |         | 6,549   |
| Other financial assets                                                    | 14                | 4       | 16      | 34      |
| <b>Liabilities</b>                                                        |                   |         |         |         |
| Other financial liabilities                                               | (18)              | (8)     | (2)     | (28)    |

<sup>1</sup> Investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to amounts presented on the interim consolidated balance sheets.

During the six months ended June 30, 2016, there were no transfers between Level 1 and Level 2. In addition, there were no transfers into and out of Level 3.

The following table presents the changes in OPG's net assets measured at fair value that are classified as Level 3 for the three months ended June 30, 2016:

| (millions of dollars)                | Other financial instruments |
|--------------------------------------|-----------------------------|
| Opening balance, April 1, 2016       | 10                          |
| Unrealized gains included in revenue | 1                           |
| Realized losses included in revenue  | (3)                         |
| Purchases                            | 1                           |
| Closing balance, June 30, 2016       | 9                           |

The following table presents the changes in OPG's net assets measured at fair value that are classified as Level 3 for the six months ended June 30, 2016:

| (millions of dollars)                | Other financial instruments |
|--------------------------------------|-----------------------------|
| Opening balance, January 1, 2016     | 14                          |
| Unrealized gains included in revenue | 1                           |
| Realized losses included in revenue  | (8)                         |
| Purchases                            | 2                           |
| Closing balance, June 30, 2016       | 9                           |

## Nuclear Funds

The fair value of the investments within the Nuclear Funds' alternative investment portfolio is determined using appropriate valuation techniques, such as recent arm's length market transactions, references to current fair values of other instruments that are substantially the same, discounted cash flow analyses, third-party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity or other discount premiums on the investments are considered in the determination of fair value.

The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for these investments. The values may also differ from the prices at which the investments may be sold.

The following are the classes of investments within the Nuclear Funds that are reported on the basis of NAV as at June 30, 2016:

| <i>(millions of dollars except where noted)</i> | <b>Fair Value</b> | <b>Unfunded Commitments</b> | <b>Redemption Frequency</b> | <b>Redemption Notice</b> |
|-------------------------------------------------|-------------------|-----------------------------|-----------------------------|--------------------------|
| Infrastructure                                  | 993               | 478                         | n/a                         | n/a                      |
| Real Estate                                     | 662               | 293                         | n/a                         | n/a                      |
| Agriculture                                     | 56                | 135                         | n/a                         | n/a                      |
| Pooled Funds                                    |                   |                             |                             |                          |
| Short-term Investments                          | 20                | n/a                         | Daily                       | 1 - 5 Days               |
| Fixed Income                                    | 641               | n/a                         | Daily                       | 1 - 5 Days               |
| Equity                                          | 700               | n/a                         | Daily                       | 1 - 5 Days               |
| <b>Total</b>                                    | <b>3,072</b>      | <b>906</b>                  |                             |                          |

The fair value of the pooled funds is classified as Level 2. Infrastructure, real estate and agriculture investments are measured using NAV as a practical expedient for determining their fair value.

### Infrastructure

This class includes investments in funds whose investment objective is to generate a combination of long-term capital appreciation and current income, generally through investments such as energy, transportation and utilities. The fair values of investments in this class have been estimated using the NAV of the Nuclear Funds' ownership interest in partners' capital and/or underlying investments held by subsidiaries of an infrastructure fund. The investments in the respective infrastructure funds are not redeemable. However, the Nuclear Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated. However, the infrastructure funds have a maturity end period ranging from 2019 to 2025.

### Real Estate

This class includes investment in institutional-grade real estate property. The investment objective is to provide a stable level of income with the opportunity for long-term capital appreciation. The fair values of the investments in this class have been estimated using the NAV of the Nuclear Funds' ownership interest in these investments. The partnership investments are not redeemable. However, the Nuclear Funds may transfer any of its partnership interests to another party, as stipulated in the partnership agreement. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this class will be liquidated.

### Agriculture

This class includes a diversified portfolio of global farmland and timberland investments. The investment objective is to provide a differentiated return source, income yield, and inflation protection. The fair values of the investments in this class have been estimated using the NAV of the Nuclear Funds' ownership interest in these investments. The investments are not redeemable. However, the Nuclear Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements.

### Pooled Funds

This class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations, and diversified portfolios of Emerging Market listed equity. The investment objective of the pooled funds is to achieve capital appreciation and income through professionally managed portfolios. The fair value of the investments in this class has been estimated using the NAV per share of the investments. There are no significant restrictions on the ability to sell the investments in this class.

## **11. COMMITMENTS AND CONTINGENCIES**

### Litigation

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of \$500 million was served against OPG and Bruce Power L.P. (Bruce Power) by British Energy Limited and British Energy International Holdings Limited (together British Energy). The action is for contribution and indemnity of any amounts British Energy was liable for in an arbitration against it by some of the owners of Bruce Power regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power (the Arbitration). Both the action and the Arbitration relate to corrosion to a steam generator unit discovered after OPG leased the Bruce nuclear generating stations to Bruce Power.

In 2012, the arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The final settlement amount was valued by British Energy at \$71 million. In September 2014, British Energy amended its Statement of Claim (Amended Claim) to reduce the claim amount to \$100 million to reflect that the purchasers of British Energy's interest in Bruce Power did not receive the full damages they originally claimed in the Arbitration. British Energy also added an allegation to its Amended Claim that OPG breached a covenant to maintain the steam generator between the time of the initial agreement to lease and the effective date of the lease in accordance with "Good Utility Practices".

Various other legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of business activities.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably. While it is not possible to determine the ultimate outcome of the various pending actions, it is the Company's belief that their resolution is not likely to have a material adverse impact on its financial position.

### Guarantees

The Company and its joint venture partners have jointly guaranteed the financial performance of jointly owned entities related primarily to the payment of liabilities. As at June 30, 2016, the total amount of guarantees OPG provided to these entities was \$83 million. OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time. Other guarantees have terms ending between 2019 and 2029. As at June 30, 2016, the potential impact of the fair value of these guarantees to income has been estimated to be negligible and OPG does not expect to make any payments associated with these guarantees.

# Contractual and Commercial Commitments

OPG's contractual obligations as at June 30, 2016 are as follows:

| (millions of dollars)                                                | 2016 <sup>1</sup> | 2017         | 2018         | 2019         | 2020         | Thereafter   | Total         |
|----------------------------------------------------------------------|-------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Fuel supply agreements                                               | 94                | 177          | 167          | 100          | 67           | 114          | 719           |
| Contributions under the Ontario Nuclear Funds Agreement <sup>2</sup> | 76                | 163          | 193          | 288          | 133          | 2,285        | 3,138         |
| Contributions to the OPG registered pension plan <sup>3</sup>        | 173               | -            | -            | -            | -            | -            | 173           |
| Long-term debt repayment                                             | 271               | 1,103        | 398          | 368          | 663          | 2,667        | 5,470         |
| Interest on long-term debt                                           | 124               | 242          | 186          | 167          | 145          | 2,275        | 3,139         |
| Short-term debt repayment                                            | 247               | -            | -            | -            | -            | -            | 247           |
| Commitments related to Darlington Refurbishment <sup>4</sup>         | 317               | -            | -            | -            | -            | -            | 317           |
| Commitments related to Peter Sutherland Sr. GS                       | 79                | 31           | 2            | -            | -            | -            | 112           |
| Operating licence                                                    | 20                | 43           | 37           | 23           | 24           | 142          | 289           |
| Operating lease obligations                                          | 9                 | 17           | 17           | 14           | 14           | 42           | 113           |
| Unconditional purchase obligations                                   | 36                | 62           | 58           | 57           | 55           | 5            | 273           |
| Accounts payable and accrued charges                                 | 814               | 4            | 17           | -            | -            | 18           | 853           |
| Other                                                                | 38                | 14           | 5            | 2            | 2            | 69           | 130           |
| <b>Total</b>                                                         | <b>2,298</b>      | <b>1,856</b> | <b>1,080</b> | <b>1,019</b> | <b>1,103</b> | <b>7,617</b> | <b>14,973</b> |

<sup>1</sup> Represents amounts for the remainder of the year.

<sup>2</sup> Contributions under the Ontario Nuclear Funds Agreement (ONFA) are based on the 2012 ONFA Reference Plan contribution schedule approved in 2012. An updated ONFA Reference Plan is expected to be effective January 1, 2017.

<sup>3</sup> The pension contributions include ongoing funding requirements and additional funding requirements towards the deficit, in accordance with the actuarial valuation of the OPG registered pension plan as at January 1, 2014. The next actuarial valuation of the OPG registered pension plan must have an effective date no later than January 1, 2017. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2016 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The amount of OPG's additional, voluntary contribution, if any, is revisited from time to time.

<sup>4</sup> Represents estimated currently committed costs to close the project, including demobilization of project staff and cancellation of existing contracts and material orders.

## 12. BUSINESS SEGMENTS

| Segment (Loss)<br>Income for the Three<br>Months Ended<br>June 30, 2016<br><i>(millions of dollars)</i> | Nuclear<br>Generation | Regulated<br>Nuclear<br>Waste<br>Manage-<br>ment | Hydro-<br>electric | Contracted<br>Generation<br>Portfolio | Unregulated<br>Services,<br>Trading, and<br>Other Non-<br>Generation | Elimination | Total |
|---------------------------------------------------------------------------------------------------------|-----------------------|--------------------------------------------------|--------------------|---------------------------------------|----------------------------------------------------------------------|-------------|-------|
| Revenue                                                                                                 | 820                   | 32                                               | 413                | 137                                   | 16                                                                   | (31)        | 1,387 |
| Fuel expense                                                                                            | 79                    | -                                                | 92                 | 11                                    | -                                                                    | -           | 182   |
| Gross margin                                                                                            | 741                   | 32                                               | 321                | 126                                   | 16                                                                   | (31)        | 1,205 |
| Operations,<br>maintenance and<br>administration                                                        | 581                   | 34                                               | 75                 | 45                                    | 5                                                                    | (31)        | 709   |
| Depreciation and<br>amortization                                                                        | 231                   | -                                                | 57                 | 18                                    | 10                                                                   | -           | 316   |
| Accretion on fixed<br>asset removal and<br>nuclear waste<br>management<br>liabilities                   | -                     | 228                                              | -                  | 2                                     | 2                                                                    | -           | 232   |
| Earnings on nuclear<br>fixed asset removal<br>and nuclear waste<br>management funds                     | -                     | (225)                                            | -                  | -                                     | -                                                                    | -           | (225) |
| Property taxes                                                                                          | 6                     | -                                                | -                  | 3                                     | 2                                                                    | -           | 11    |
| Income from<br>investments subject<br>to significant influence                                          | -                     | -                                                | -                  | (9)                                   | -                                                                    | -           | (9)   |
| Other (gains) losses                                                                                    | (1)                   | -                                                | 2                  | -                                     | (2)                                                                  | -           | (1)   |
| (Loss) income before<br>interest and income<br>taxes                                                    | (76)                  | (5)                                              | 187                | 67                                    | (1)                                                                  | -           | 172   |

| Segment Income<br>(Loss) for the Three<br>Months Ended<br>June 30, 2015<br><i>(millions of dollars)</i> | Nuclear<br>Generation | Regulated<br>Nuclear<br>Waste<br>Manage-<br>ment | Hydro-<br>electric | Contracted<br>Generation<br>Portfolio | Unregulated<br>Services,<br>Trading, and<br>Other Non-<br>Generation | Elimination | Total |
|---------------------------------------------------------------------------------------------------------|-----------------------|--------------------------------------------------|--------------------|---------------------------------------|----------------------------------------------------------------------|-------------|-------|
| Revenue                                                                                                 | 810                   | 29                                               | 409                | 144                                   | 19                                                                   | (28)        | 1,383 |
| Fuel expense                                                                                            | 79                    | -                                                | 89                 | 11                                    | 1                                                                    | -           | 180   |
| Gross margin                                                                                            | 731                   | 29                                               | 320                | 133                                   | 18                                                                   | (28)        | 1,203 |
| Operations, maintenance and administration                                                              | 513                   | 30                                               | 79                 | 44                                    | 12                                                                   | (28)        | 650   |
| Depreciation and amortization                                                                           | 113                   | -                                                | 60                 | 18                                    | 9                                                                    | -           | 200   |
| Accretion on fixed asset removal and nuclear waste management liabilities                               | -                     | 221                                              | -                  | 2                                     | 1                                                                    | -           | 224   |
| Earnings on nuclear fixed asset removal and nuclear waste management funds                              | -                     | (141)                                            | -                  | -                                     | -                                                                    | -           | (141) |
| Property taxes                                                                                          | 6                     | -                                                | -                  | 2                                     | 4                                                                    | -           | 12    |
| Income from investments subject to significant influence                                                | -                     | -                                                | -                  | (11)                                  | -                                                                    | -           | (11)  |
| Restructuring                                                                                           | -                     | -                                                | -                  | -                                     | 1                                                                    | -           | 1     |
| Income (loss) before interest and income taxes                                                          | 99                    | (81)                                             | 181                | 78                                    | (9)                                                                  | -           | 268   |

| Segment (Loss)<br>Income for the Six<br>Months Ended<br>June 30, 2016<br>(millions of dollars) | Nuclear<br>Generation | Regulated<br>Nuclear<br>Waste<br>Manage-<br>ment | Hydro-<br>electric | Contracted<br>Generation<br>Portfolio | Unregulated<br>Services,<br>Trading, and<br>Other Non-<br>Generation | Elimination | Total |
|------------------------------------------------------------------------------------------------|-----------------------|--------------------------------------------------|--------------------|---------------------------------------|----------------------------------------------------------------------|-------------|-------|
| Revenue                                                                                        | 1,746                 | 66                                               | 798                | 282                                   | 37                                                                   | (64)        | 2,865 |
| Fuel expense                                                                                   | 160                   | -                                                | 171                | 23                                    | -                                                                    | -           | 354   |
| Gross margin                                                                                   | 1,586                 | 66                                               | 627                | 259                                   | 37                                                                   | (64)        | 2,511 |
| Operations,<br>maintenance and<br>administration                                               | 1,144                 | 70                                               | 151                | 85                                    | 9                                                                    | (64)        | 1,395 |
| Depreciation and<br>amortization                                                               | 461                   | -                                                | 113                | 37                                    | 17                                                                   | -           | 628   |
| Accretion on fixed<br>asset removal and<br>nuclear waste<br>management<br>liabilities          | -                     | 456                                              | -                  | 4                                     | 4                                                                    | -           | 464   |
| Earnings on nuclear<br>fixed asset removal<br>and nuclear waste<br>management funds            | -                     | (372)                                            | -                  | -                                     | -                                                                    | -           | (372) |
| Property taxes                                                                                 | 13                    | -                                                | -                  | 5                                     | 5                                                                    | -           | 23    |
| Income from<br>investments subject<br>to significant influence                                 | -                     | -                                                | -                  | (17)                                  | -                                                                    | -           | (17)  |
| Other gains                                                                                    | (2)                   | -                                                | (20)               | -                                     | (2)                                                                  | -           | (24)  |
| (Loss) income before<br>interest and income<br>taxes                                           | (30)                  | (88)                                             | 383                | 145                                   | 4                                                                    | -           | 414   |

| Segment Income<br>(Loss) for the Six<br>Months Ended<br>June 30, 2015<br><i>(millions of dollars)</i> | Nuclear<br>Generation | Regulated<br>Nuclear<br>Waste<br>Manage-<br>ment | Hydro-<br>electric | Contracted<br>Generation<br>Portfolio | Unregulated<br>Services,<br>Trading, and<br>Other Non-<br>Generation | Elimination | Total |
|-------------------------------------------------------------------------------------------------------|-----------------------|--------------------------------------------------|--------------------|---------------------------------------|----------------------------------------------------------------------|-------------|-------|
| Revenue                                                                                               | 1,623                 | 61                                               | 803                | 267                                   | 43                                                                   | (59)        | 2,738 |
| Fuel expense                                                                                          | 157                   | -                                                | 160                | 18                                    | 2                                                                    | -           | 337   |
| Gross margin                                                                                          | 1,466                 | 61                                               | 643                | 249                                   | 41                                                                   | (59)        | 2,401 |
| Operations,<br>maintenance and<br>administration                                                      | 1,039                 | 64                                               | 155                | 88                                    | 28                                                                   | (59)        | 1,315 |
| Depreciation and<br>amortization                                                                      | 227                   | -                                                | 120                | 35                                    | 14                                                                   | -           | 396   |
| Accretion on fixed<br>asset removal and<br>nuclear waste<br>management<br>liabilities                 | -                     | 441                                              | -                  | 4                                     | 3                                                                    | -           | 448   |
| Earnings on nuclear<br>fixed asset removal<br>and nuclear waste<br>management funds                   | -                     | (372)                                            | -                  | -                                     | -                                                                    | -           | (372) |
| Property taxes                                                                                        | 13                    | -                                                | -                  | 4                                     | 8                                                                    | -           | 25    |
| Income from<br>investments subject<br>to significant influence                                        | -                     | -                                                | -                  | (22)                                  | -                                                                    | -           | (22)  |
| Restructuring                                                                                         | -                     | -                                                | -                  | -                                     | 1                                                                    | -           | 1     |
| Income (loss) before<br>interest and income<br>taxes                                                  | 187                   | (72)                                             | 368                | 140                                   | (13)                                                                 | -           | 610   |

### 13. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

| <i>(millions of dollars)</i>         | Six Months Ended<br>June 30 |       |
|--------------------------------------|-----------------------------|-------|
|                                      | 2016                        | 2015  |
| Receivables from related parties     | 52                          | 81    |
| Other current assets <sup>1</sup>    | (8)                         | 9     |
| Fuel inventory                       | 11                          | 9     |
| Income taxes payable/recoverable     | (1)                         | 71    |
| Materials and supplies               | 1                           | 1     |
| Accounts payable and accrued charges | (148)                       | (119) |
|                                      | (93)                        | 52    |

<sup>1</sup> Includes other accounts receivable and prepaid expenses.

#### 14. INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Investments subject to significant influence consist of OPG's 50 percent ownership interest in the jointly controlled entities of the Portlands Energy Centre (PEC) gas-fired combined cycle generating station and the Brighton Beach gas-fired combined cycle generating station (Brighton Beach), which are accounted for using the equity method.

Details of the balances as at June 30, 2016 and December 31, 2015 are as follows:

| <i>(millions of dollars)</i>                 | <b>June 30<br/>2016</b> | <b>December 31<br/>2015</b> |
|----------------------------------------------|-------------------------|-----------------------------|
| <b>PEC</b>                                   |                         |                             |
| Current assets                               | <b>16</b>               | 14                          |
| Long-term assets                             | <b>262</b>              | 270                         |
| Current liabilities                          | <b>(9)</b>              | (4)                         |
| Long-term liabilities                        | <b>(5)</b>              | (5)                         |
| <b>Brighton Beach</b>                        |                         |                             |
| Current assets                               | <b>5</b>                | 9                           |
| Long-term assets                             | <b>172</b>              | 177                         |
| Current liabilities                          | <b>(15)</b>             | (15)                        |
| Long-term debt                               | <b>(97)</b>             | (104)                       |
| Other long-term liabilities                  | <b>(6)</b>              | (6)                         |
| Investments subject to significant influence | <b>323</b>              | 336                         |